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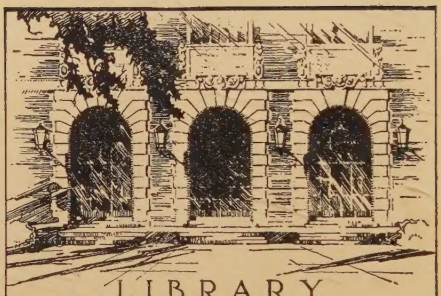

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INVESTMENT TRUSTS

INVESTMENT TRUSTS

THEIR ORIGIN, DEVELOPMENT, AND OPERATION

BY

THEODORE J. GRAYSON, B.S. in Econ., LL.B.

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TO

EDWARD SHERWOOD MEAD

FOREWORD

In this study of what is proving day by day to be a more useful, interesting, and practical portion of the financial field, the author has endeavored to cover the subject of Investment Trusts with sufficient thoroughness to give the reader a clear understanding of the basic principles which govern these organizations. He has also endeavored to trace their historical development in Great Britain and the United States and to show their present status and, to some extent their future possibilities. It is dangerous to deal in prophecy, however, and therefore very little has been done in the nature of forecasting the future of Investment Trusts.

It is also impractical to attempt to be encyclopedic, and the author is quite well aware that many worthy Investment Trusts are not mentioned by name in the course of this book. Nevertheless, a sincere effort has been made to discover and coordinate the principal forms of Investment Trust companies, and it is hoped that the labor involved will result in affording a considerable amount of definite information to all who are interested in this particular type of investment machinery.

The Investment Trust, while well standardized in Great Britain, is still in a formative state in this country and probably will be in a condition of evolution for some years to come. Therefore, so far as American trusts are concerned, the author has endeavored not to appear dogmatic but to ascertain and narrate the principal facts connected with the American companies, realizing all the time that new developments are sure to occur with increasing frequency as the months and years go by. In the American field, therefore, this book may be considered in the light of an interim report, but it is hoped that the report is accurate and fair.

Frequently this question is asked: "What are the future prospects of Investment Trusts in the United States?" As has been said above, it would be rash to hazard a definite answer to this question because no one can tell what the future will bring. This much, however, may be said with assurance: the American Investment Trust is still in a state of evolution, and a line of demarcation already exists between those trusts which have been framed in general accord with the British type and those which have been constructed along inelastic lines and which are

known generically as fixed-capital trusts or bankers' share companies. In the British type, good management and diversification are both objectives; while in the bankers' share trust, management is almost eliminated although diversification is sought. Undoubtedly the greatest present danger connected with the American Investment Trust lies in the transactions of the so-called bankers' share type. We have just passed through a boom period, especially in the stock market, and the operators of bankers' share companies have been compelled to purchase, at relatively high prices, the securities which lie under and sustain their investment-trust offerings of stock and bonds. The result is that it remains to be seen how such companies will weather the first severe period of depression.

The author believes that the investigation now in progress in New York State, which was initiated by Hon. Albert Ottinger, Attorney General, is the best thing that could happen to the meritorious Investment Trusts of the country. History tells us that about thirty-eight years ago British Investment Trusts went through a drastic era of house-cleaning and readjustment, and it will perhaps be better for us if we have the housecleaning at the beginning rather than several years from now. It is believed that the Investment Trust has come to stay because it gives the small investor the benefits of expert management of his securities and diversification of them—a boon which he can obtain in no other way. Also, investors, both small and large, are bound to profit as time goes on by the facilities which well-conducted Investment Trusts will accumulate for the general purpose of investing wisely in foreign securities. It seems to be clear from an economic and financial point of view that the domestic securities of this country must be supplemented in the near future by securities held abroad; and in the export of money for foreign investment the Investment Trust has for many years proved itself one of the most useful of the various instruments employed.

In the period of examination and appraisement which is just beginning, the conservative Investment Trusts of the country need feel no alarm, because they will be asked only such questions as they should be glad to answer. It is of importance, however, that individual investors should know the answers to several important queries. This has been well put by M. S. Rukeyser, in an article which recently appeared in *World's Work*, as follows:

He (the prospective investor) should inquire whether securities are placed into the trust at cost, or whether the managers act as principals and make a profit. Furthermore, he should become fully aware of the

ratio of earnings on his capital he will be allowed to keep. He should learn the exact nature of deductions which the organizers will make for themselves in the form of dividends on founders' shares, special fees, participation in profits, and intermediate profits on securities bought for the trust.

Next, he should inquire into the policy in respect to reserves. The best foreign trusts allocate one-half or more of net income for reserves against contingencies.

The investor should ascertain the policy of the trust in respect to publicity concerning success or failure. He is entitled to receive periodically a balance sheet and an income account, drawn up by certified public accountants. Moreover, at least once a year the trust should disclose the nature of the securities held in its portfolio.

If such fair questions as the above are properly answered, it would seem that the Investment Trusts that can thus furnish satisfactory replies ought to assume a permanent and important position in the scheme of American finance. They will cease to be a fad and become an institution. This much of prophecy one would seem to be justified in making at this time.

It would be impossible to close this brief foreword without acknowledging the deep debt of gratitude which the author owes to a number of friends, colleagues, and former students. More than any other man, Irvin Bendiner, Esquire, has loyally and earnestly assisted the author, and, especially in connection with the preparation of the tables contained therein, his aid and friendly advice have proved invaluable. Mr. Bendiner also read the proofs and assisted in making up the page proof.

Dr. E. S. Mead, Professor of Finance at the University of Pennsylvania, has also given valued counsel and advice. Dr. W. C. Schluter and Dr. Julius Grodinsky, also of the Wharton School Faculty, have assisted the author by furnishing a considerable amount of data and source material, as has also Mr. H. Evan Taylor, President of Investment Registry of America, Inc. Mr. Herman S. Hettinger has given valued aid, especially in connection with the subject of Federal Land Banks; and Mr. George Lewis, of the investment firm of Lewis and Company of Philadelphia, has read the manuscript and given much excellent advice. Acknowledgment of advice and assistance is also due to Mr. Jarvis W. Rockwell, Jr., President of the Financial Investing Company of New York, and to Mr. Edgar Lawrence Smyth, President of the Investment Managers Company of New York City. Dr. Leland Rex Robinson also supplied valuable material. Mr. William T. Cruse, a former student of the author's, did considerable research work in connection with Chapter XVII, entitled "American Institutions Akin to the

Investment Trust." and Mr. Louis B. Taylor also contributed his long experience in investment banking by reading and criticizing this important chapter. Thanks are also due to Sarah S. Hettinger, who prepared the Index.

Space will not permit separate acknowledgment to about two hundred trust managers, secretaries, accountants, lawyers, and various other officials of Investment Trusts in England and the United States, who have generously contributed valuable aid and source material. However, it is hoped that this general word of appreciation will serve to inform them of the author's gratitude.

"The Investment Trust," a monograph by Lawrence M. Speaker, "Foreign Credit Facilities in the United Kingdom" and "Investment Trust Organization and Management" by Dr. Leland Rex Robinson have been valuable contributions in this field. It is to be said that for years to come research students in Investment Trusts will be indebted to these pioneers and the author is glad to acknowledge his personal obligations in this regard.

It is the sincere hope of the author that this study may be of definite assistance in bringing to the minds of the investing public the great value of the two basic objectives of a real Investment Trust, namely, efficient management and diversification.

THEODORE J. GRAYSON.

WHARTON SCHOOL,
UNIVERSITY OF PENNSYLVANIA.
March, 1928.

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INVESTMENT TRUSTS

THEIR ORIGIN, DEVELOPMENT AND OPERATION

CHAPTER I

INTRODUCTION

Definition of an Investment Trust.—The term investment trust is likely to give the modern investor a wrong impression of the character of the organization which it represents.

The word trust, in America at least, has several significations. It is perhaps best known in connection with the trust company, which is a financial group engaged in multifarious activities ranging all the way from straight banking to the care of decedents' estates. It is also definitely related to that group of corporations, resulting in most cases from numerous consolidations of smaller companies, which became a dominant feature in our financial world during the latter part of the last century and the early part of the present one.

An investment trust, however, is neither a trust company nor a large industrial corporation. It is rather a piece of financial machinery capable of many variations as to type, with many features giving it similarity to other well-recognized investment devices, as, for instance, the "holding company," but with one distinguishing characteristic which is peculiarly its own and which exists in every type of true investment trust, thereby differentiating this financial form from every other. This feature is diversification of the securities held by the trust, with consequent spreading of the risk involved, to the direct benefit of the investor, especially the small investor.

The term investment trust arose when these associations were first formed in England during the early sixties, at which time the corporation laws of Great Britain had not yet been consolidated into the Companies Acts. Therefore, the earliest of these associations were unincorporated, of a voluntary nature, and of a fiduciary character,

and hence were called trusts in accordance with the custom of that time.

The theory of investment trusts is simple. Essentially, it involves the acquisition of a cash fund through the sale of trust securities and the employment of this fund by the trust managers in the purchase of a considerable number of investments which are subject to the lien of the trust's own securities, thereby giving the trust's security holders insurance against loss by means of diversification of its underlying investments and consequent wide spread of risk.

Economic Value of the Investment Trust as an Aid to Small Investors.—From an economic standpoint, it is important that profits which result from work of any kind, whether directly or indirectly, should be wisely and judiciously employed to pay for other work of a legitimate and profitable character; otherwise, there is waste, which connotes immediate and uneconomic loss of power.[1] Application of profits is only a descriptive phrase for the term "investment," which denotes an important part of finance, the science of remuneration, or, as it may be more popularly described, the science of paying for work.[2]

Only recently has the scientific character of investment been recognized,[3] but now it is admitted that a knowledge of securities and

[1] The wise investment of savings adds to society's material equipment of tools, machinery, buildings, etc., for the production of economic goods. In this way it lightens the toil necessary to the realization of a certain productive result. Even more important is the fact that, through saving, a family may make itself economically independent, not in order that it may turn its attention from useful industry, but that it may devote itself to the work that most needs to be done even though the world has not yet learned to appreciate it and remunerate it in proportion to its importance.

It may be doubted whether, under present conditions, saving beyond what is necessary to assure economic independence benefits the world as much as would wise spending for some social object. Great wealth is almost if not quite as demoralizing as great poverty, and the man who really desires to contribute to social improvement will put a check upon his accumulations and give his time and thought to spending such income as he does not require for his own family in ways that will benefit others. If he continues to save he must finally, in drafting his will, face the problem of the best use of wealth. Passing on to his heirs more than is necessary to insure them economic independence is merely evading an issue which each should face squarely for himself.—Principles of Economics, Henry Rodgers Seager, Henry Holt & Company, 1917, p. 83.

[2] Elementary Principles of Economics, Irving Fisher, The Macmillan Co., 1919, p. 395.

[3] Principles of Economics, Edwin R. A. Seligman, Longmans, Green, & Co., 1910, p. 327.

an ability to forecast their future strength or weakness through analysis of their previous records constitutes a life-long vocation of professional character requiring a high degree of mentality, experience, and skill.[4]

There is in every country a class of wealthy investors, who either have cultivated the power of investment analysis or else have the wisdom to employ specialists to do this service for them. Thus, the Rockefellers have a trained staff of financial experts to supervise and manage their investment funds, while the Astor Estate uses the same system, and even the wealthy parish of Trinity Church, New York, proceeds in the same way.

How different, however, has been the fate of the small investor both here and abroad! It is well known that until recently there have been very few avenues of first-class legitimate investment open to the man of small means, because the smallest investment unit has ordinarily been the $500 bond, and in the majority of instances nothing less than a $1000 piece has been offered.[5] It is chiefly in our Western States that this situation has been changed to any great extent.

[4] Management may be considered from two viewpoints, character and ability. It is an axiom of business that no credit should be entrusted to any man or group of men whose probity and sense of righteousness is not above question, regardless of every other phase of the situation. The ability of the management is no less important. If the enterprise is managed by people who have been successful in similar lines of endeavor, the income will be far more secure than it would be under a less competent management.—Investments, David F. Jordan, Prentice Hall, 1922, p. 33.

[5] Adapting the Commodity to Purchasing Power.—The second method suggested, of adapting the commodity to the investor's purchasing power by decreasing the size of the investment unit, is equally important but requires little description. This method was adopted in conjunction with the partial-payment plan in the sale of Liberty bonds and proved eminently successful. For years prior to this, however, the so-called "baby bond" was being put on the market, and within recent years hundreds of such issues are available to the small investor. Lists of prominent bonds of $50 and $100 denominations are frequently published in the columns of magazines and space is not available here to reproduce such a list. One New York firm, at least, is now more or less specializing in the sale of bonds of small denominations directly to the public, eliminating the middleman's profit. Thus far there has been practically no deliberate application of this method to stock certificates, although it would supply all of the benefits of the partial-payment plan with very few of the abuses to which that plan is subject. To place commodities such as pianos and automobiles in the hands of persons of limited means, the partial-payment plan is essential, since these articles cannot be divided, but corporate capital is easily divisible and its adaptation to purchasing power consequently convenient. There is no

From an economic standpoint there has been a huge annual loss extending over many years, because no proper investment provisions have been made to re-employ in productive industry the surplus income of the moderate wage earner and small-salaried man. Just as our immediate ancestors ruthlessly slaughtered the bison on the prairies of the West and neglected the smaller food animals close at hand, so the investment bankers of our time have devoted their attention principally to men of large means and to banks and other financial institutions, and have paid scant attention to hundreds of thousands of people who, while not wealthy, have always been able to acquire through productive labor an excess of economic resources. This excess should be diverted into proper investment channels, for if properly invested it would not only be profitable to the individual investors and the middleman supplying the investments but would also give increased economic power to the State itself. Employee and customer stock-selling campaigns are a hopeful indication of a change in this policy, but they are of recent origin and are still in process of evolution.

It is unfortunately true that while the better class of investment bankers have neglected the small investment field there are many who have been more solicitous in this regard. Of late years the small investor has become the special prey of the fake mining promoter and the specious specialist in dubious oil wells. Many such securities, retailing at from one to five dollars a share, have proved attractive

reason, apparently, why $10, $25 and $50 should not become standard par value for stock certificates instead of $100.

It will easily be seen by retrospection that the baby bond idea has all the advantages of the partial-payment plan—encouragement of thrift, diversification of investments, restriction of speculation, provision for the future, diminution of manipulation, extension of the capital field and community of interest. It has worked satisfactorily in the case of bonds and it is curious that it has not been applied extensively to stock certificates, where the results would be even greater. One might anticipate that with a reduction of the par value to $10 per share the interest in the Pennsylvania Railroad Company would be increased from 100,000 to 200,000 or 300,000 persons and that similar results would obtain in other large corporations. This is a possibility worthy of serious consideration by promoters and underwriters. A reduction in the par value of shares would produce all the benefits of the partial-payment plan and eliminate some of the abuses of this system. It would broaden the investment field in the United States and open up new fields for stocks and bonds of American corporations in foreign countries, where large denominations have always been a detriment to wide distribution.—*Annals, American Academy of Political and Social Science,* March, 1920, LXXXVIII, No. 177, p. 175.

to small investors, not so much because of any essential advantage connected with the individual proposition as because the representative security was salable in low-priced units well within the purchasing capacity of people of moderate means.

Prior to the Great War, millions of citizens either bought unsafe securities in small low-priced units or else spent all their earnings and saved nothing at all. In some few localities such as Pennsylvania, the incidence of an investment form such as the building-and-loan association was helpful; and life insurance payments also offered a partial solution, although the insurance investigation of 1905–06 modified the rate of successful growth of this great and useful avenue of investment. The war itself was highly educational. Thousands of people, who before hostilities began did not even know what a bond was, were not merely taught, through the Liberty Bond drives, the character and meaning of a Government promise to pay, but, for the first time in their lives, were compelled to practice economy in order to complete their patriotic bond purchases, and subsequently experienced the reward of thrift when they cashed their interest coupons.[6]

Since the termination of the War, wage earners and salaried men have shown a distinct willingness, which never existed before, to

[6] SAVINGS (POSTAL AND BANK), 1914–1923

Year	Postal Savings		Savings Bank		
	Number of depositors	Balance	Number of depositors	Deposits (thousands)	Average per depositors
1914	388,511	$4,344,271	11,109,499	$4,933,885	$832.60
1915	525,414	65,684,708	11,285,755	4,996,583	826.81
1916	602,937	86,019,885	11,148,392	5,089,853	840.25
1917	674,728	131,954,696	11,367,013	5,418,654	904.57
1918	612,188	148,471,499	11,379,553	5,471,788	933.99
1919	565,509	167,323,260	11,434,881	5,903,427	994.37
1920	508,508	157,276,322	11,427,556	6,538,194	1230.84
1921	466,109	152,389,903	10,737,843	6,017,998	975.48
1922	420,242	137,736,439	12,538,997	7,181,248	1084.74
1923	417,902	131,671,300	13,340,332	7,897,909	1115.48

Footnote continued on next page.

invest their surplus earnings.[7] It may be truthfully said that with this willingness to invest there is a strong desire for safe, dependable securities within the capacity of men of moderate means.[8]

There is, however, another factor to be considered. The poor man cannot afford to lose his little at stake, the result of years of toil and self-sacrifice. Therefore, we have been watching as a people for the small unit investment possessing the attribute of unusual safety combined with reasonable interest return and fair marketability.

Diversity and Insurance.—The investment trust comes as near meeting the requirements of the small investor as anything yet suggested, and at the same time possesses a distinct attraction for the man of larger means.

The old saying that it is unwise to put all of one's eggs into one basket was probably in the minds of those who formed the first investment trusts. While similar in many superficial ways to the collateral trust agreement and the holding company, the investment trust is very different in essential purpose and also lacks the element

Footnote continued from previous page.

BUILDING AND LOAN ASSOCIATIONS—LIFE INSURANCE

Year	Number of Members	Assets (Thousands)	Policyholders (Thousands)			Amount of Insurance in Force (Thousands)		
			Ordinary	Industrial	Fraternal	Ordinary	Industrial	Fraternal
1914	3,103,935	$1,357,708	9,045	31,159	.....	17,425,501	4,163,671	
1915	3,334,899	1,484,206	9,890	33,142	7,696	18,349,285	4,427,469	8,694,449
1916	3,568,432	1,598,628	10,698	35,675	8,675	19,868,270	4,811,042	9,162,112
1917	3,838,612	1,769,142	11,582	38,764	7,457	21,965,594	5,223,415	9,129,974
1918	4,011,401	1,898,344	12,768	41,852	8,021	24,167,112	5,703,198	8,838,579
1919	4,289,326	2,126,620	15,716	51,295	10,380	29,273,115	6,607,012	9,531,217
1920	5,026,781	2,534,320	16,695	49,805	8,439	35,091,538	7,189,852	8,879,452
1921	5,809,888	2,890,765	17,685	54,097	8,578	37,977,281	8,006,120	9,159,042
1922	6,364,144	3,342,531	18,814	58,283	8,016	41,404,191	8,886,519	8,687,939

Figures taken from Reports of United States Bureau of Commerce and Reports of Superintendent of Insurance, New York.

	Number of Shareholders, 1913—1923	Average Share Holdings, 1913—1923
[7] Pennsylvania Railroad.....	over 89,000—146.440	112—68.29
American Telephone & Telegraph.....	55,983—340.000	59—24

[8] Modern Economic Problems, Frank A. Fetter, The Century Co., 1922, p. 162.

of control of subsidiary corporations. With the collateral trust and holding company diversity of underlying securities is a necessary incident, but with the investment trust it is the main purpose. Deep and basic in the investment-trust form is the insurance principle—its most distinguishing characteristic. The theory of all forms of insurance is the substitution of a risk distributed over a large group for a concentrated risk borne by one or a few. The investment trust as an institution is in effect an investment insurance company in that it carries into operation the law of large numbers, better known as the law of averages, as it applies to investments.

It must be remembered, however, that the function of the investment trust is not to insure its stockholders against loss by investment, but rather to afford to them the opportunity of investing small amounts in a large number of securities, diversified according to undertaking, geographical location, and type of security. The result is that with careful management a maximum return can be had with a minimum risk based upon safe marketable collateral.

The effect of diversification of risk is well explained by Charles O. Hardy in his book, "Risk and Risk Bearing" (University of Chicago Press, 1923, p. 19) as follows:

> By a combination of risks is meant a grouping of similar items in such a way that we can tell more about the group than we can about the items which compose it. Elimination of risk by combination is the application of the so-called law of large numbers. It is often the case that we have a high degree of certainty about a group of data while at the same time we are in complete ignorance about the particular items which make up the group. Thus we may be quite sure that we can predict within 30 per cent the amount of rainfall which will occur in a given region in the next year, while if we try to predict the precipitation for any particular week, it is more likely than not that the actual result will be either less than 10 per cent or more than 1000 per cent of our estimate. So with death rates, marriages, enrollments in colleges, desertions from the army, accidents due to fireworks, and thousands of other contingencies. A single event defies prediction, but the mass remains always practically the same or varies in ways which we can predict. It is obvious that any device by which we can base our business decisions on the average which we can predict, instead of on the single event, which is uncertain, means the elimination of risk. The larger the number of cases observed the less is the deviation of results from those which *a priori* were most probable.

There is no uniformity in type with relation to securities issued by investment trusts on this side of the water, although the British

forms have become standardized, as will be explained subsequently. In many cases, however, there are at least two corresponding types, no matter what they may be called in particular instances. One type, sometimes called founders' shares, represents the trust ownership and not only receives interest on capital but shares among its holders the profits of skillful management; the other type, which is usually known in England as debentures and in America has sometimes been called preferred and sometimes common stock, receives merely a regular return upon the funds invested. The latter form is really the popular security and the one that under ordinary circumstances is the subject of public sale.

In the true investment trust the owners of the trust securities have no specific rights in the mass of underlying stocks and bonds which forms the corpus of the trust. Just as the holder of a water bond can lay no claim to a single foot of pipe in the company's distribution system, so the investment-trust stockholder has no right to any specific unit or units of security value in the trust treasury. It is simply the business of the trust to make money for its investment clients, and the underlying securities which it owns are merely the instruments it employs to accomplish a result.

Later we shall see that this principle, while almost universal in England and Scotland, has been departed from in this country in certain particular instances.

Marketability.—The success or failure of any investment trust depends mainly on one factor, and that is management. This cannot be emphasized too strongly. In capable and honest hands the investment trust will do all the things that its most ardent admirers claim for it; but under dishonest control, or if the victim of weak, unskilled and incompetent direction, it will sustain severe and inevitable losses, and in turn will defeat the purpose for which it was formed. Therefore, the marketability of investment-trust securities is closely related to the personal and financial reputations of the trust managers, and, where there has been any continuous operation, with the past record of the trust itself. If the management is efficient and wise and there is public confidence in the organization, such securities will have a market, although the market price will be affected by other factors, among which are the current quotations of government and municipal loans and other securities of an ultra-conservative character.

Value of Investment Trusts to the Nation.—The mobilization of the surplus income of a great class of investors into relatively few investment associations has the same effect financially as the im-

pounding of many small streams into a large reservoir has in the physical world. Such impounding of funds means the acquisition and control of economic power from which the Nation may reap great advantage in times of war or depression.

During the Great War, the British Government derived material assistance from the British investment trusts. There was no gold to pay America for much-needed supplies; but at hand, and under private control, were thousands of American stocks and bonds which could be deposited with the Government under adequate guarantees or sold abroad for Government account. Thus there was disclosed a quick and competent method of utilizing the patriotism and the property of the small British investor, which under different circumstances would have been unavailable because it would have taken too long to discover and collect so many small holdings.

Therefore, the necessary mobilization, under the investment-trust form, of a large number of securities held in trust for a great number of small investors has economic value, as it consumes the surplus earnings of a large class of people and impounds them in a few central units where on occasion they may be rapidly utilized by the State for the common good.

Relation of Investment Trusts to Foreign Business.—The most delicate barometer of finance is international exchange; and it was abundantly proved during the late War that, unless the means of stabilization were at hand, adverse exchange conditions would set in with startling rapidity, regardless of a country's essential solvency. Thus, in the troublesome summer of 1914, American credit was sustained by two large pools of one hundred millions each, one raised in Wall Street to offset the sudden drain of gold from Europe, and the other subscribed by Eastern bankers to underwrite the cotton crop of the South which had been deprived of its usual market with unexpected suddenness.

As a ready method of stabilizing a disorganized market, the use by governmental order of investment-trust securities has advantages which are easily recognized. The securities are at hand in large numbers, greatly diversified, in relatively few groups, and under perfect control. By an arrangement easily and rapidly perfected, they can either be sold or utilized in the same manner as the American Gold Pools of 1914, with the result that financial confidence will be restored and the rate of exchange will again approach normality.

Opportunity to Change Public Participation in Capital Investment from Speculation to Conservative Purchases.—The wistfulness

of the small investor for good securities has already been alluded to, and to this creditable emotion the investment trust responds. The vital necessity is to convince the investor of the integrity and ability of the trust managers. When this has been accomplished, it is not difficult to indicate the safety of investment which results from spread of risk among a list of widely diversified high-grade securities. In America especially, where the annual loss of millions of dollars by unskilled investors has called into being Blue Sky Commissions in almost every state, there is a definite place for a piece of investment machinery which, with proper operation, will insure against loss by means of expert selection, efficient management, and carefully planned diversity of investments.

CHAPTER II

HISTORICAL DEVELOPMENT

The genesis of the theory of diversified investment seems to have occurred in Belgium a little more than a century ago. In 1822, King William of the Netherlands formed, at Brussels, what appears to have been the first investment trust. After the separation of Belgium from the Netherlands, this company was called the *Société Générale de Belgique.* It was intended to facilitate small investments in foreign government loans which then offered more security and returns than home industry. Later the *Société* extended operations to include coal, iron, and other industries.

Another similar company was started in Brussels. These organized subsidiary companies. Their purpose, according to their by-laws, was to make coöperative investments, to protect investors against loss by wide undertakings, and to secure larger returns through investing in industrials.[1]

The growth of the investment trust upon the Continent of Europe during the first half of the nineteenth century was a gradual one.[2] European investment banking fundamentally covered, to a great extent, the field of the investment trust of to-day,[3] and in a large measure was responsible for the slowness of the development of the investment trust as a separate channel of investment.

While the investment trust undoubtedly had its genesis in Belgium nearly a century ago, it did not take firm root in Continental soil but flourished best when transplanted in British and American surroundings.[4]

[1] Article on Investment Trusts, by Sanford Griffith. appearing in the *Wall Street Journal,* New York, December 19, 1924.

[2] Investment Trust Organization and Management, Leland Rex Robinson, Ph.D., p. 209 *et seq.*

[3] Investing in Foreign Securities, George W. Edwards, p. 92 *et seq.*

[4] For instances of Continental investment trusts, see "The Investment Trust as a Channel for Investment Abroad," Vol. 7, Federal Reserve Bulletin, Jan., 1921, pp. 62–66, inclusive.

It would be difficult to give all the reasons for the institution of a form of investment machinery so novel and, one might say, so foreign to British investment practice. It is possible, however, to point out some of the causes with some degree of assurance.

Although England had been growing stronger as a money power all through the eighteenth century, and London had been gradually assuming the financial supremacy previously enjoyed by Amsterdam, nevertheless, it was not until the end of the Napoleonic Wars that Great Britain became the leading creditor nation of the world—a proud position which she was destined to occupy without serious dispute for more than a century. As a creditor, she naturally became a financially exporting nation, at first because of the insistent demand of her former allies, Russia, Prussia, Austria, and Spain, who sorely needed funds to reconstruct their war-torn territories and to start agriculture and production anew.[5]

This was undoubtedly the origin of a policy of capital export which was within fifty years to become a distinctive feature of British finance and to be worldwide in scope. Undoubtedly the limited demand for capital for home employment was an outstanding factor. England is, geographically, a small country; and, while the industrial revolution caused a relatively strong demand for new machinery and improved implements of production, this demand was small as compared with the needs of America, for instance, when this country went through a similar experience. Moreover, British railroads necessarily involved such small mileage, as compared with those of the United States or even of Continental Europe, that once more the drain upon domestic capital was comparatively light. Again, the progress of England as a great colonial power had a decided effect upon capital export. Always attentive to the needs of her colonies after one devastating experience of the results of studied neglect, the British Nation over a long period of years financed all kinds of transportation projects and development work from Newfoundland to Australia.

Naturally, the funds for foreign export came directly from the savings of the English people. While they probably would have been devoted in part to foreign loans under any circumstances, there was a powerful reason for the great extent to which the policy of loaning money abroad was carried, and that was the greater interest yield obtainable from foreign as compared with domestic loans.[6]

[5] Investing in Foreign Securities, George W. Edwards, p. 48.
[6] Ibid. p. 8.

With political security, experienced for the first time in twenty years when Napoleon landed on St. Helena, came also a readjustment of interest rates on British consols and other Government loans. This was soon reflected in the entire field of domestic borrowing, so that the British public cast an eager eye overseas where capital was needed and the interest differential was favorable and alluring. This increased return upon foreign loans continued to be a factor in the situation until the Great War and even afterward. It is interesting to examine, as a financial barometer of part of this period, a table showing the high quotations on consols between the years 1870 and 1927, as follows:[7]

1870.... 94¾	1882....102½	1894....102¼	1906.... 91¼	1918.... 63¼
1871.... 94	1883....102¾	1895....108¼	1907.... 87½	1919.... 60
1872.... 93¾	1884....102¾	1896....113¾	1908.... 88½	1920.... 52
1873.... 94	1885....101½	1897....113¾	1909.... 86	1921.... 50¾
1874.... 93¾	1886....102½	1898....113½	1910.... 83½	1922.... 60¼
1875.... 95¾	1887....103¾	1899....111½	1911.... 82¼	1923.... 59⅞
1876.... 97½	1888.... 99¼	1900....103¼	1912.... 79½	1924.... 58⅝
1877.... 97½	1889.... 98¾	1901.... 97¾	1913.... 75¾	1925.... 58¾
1878.... 98	1890.... 97½	1902.... 97¾	1914.... 77¾	1926.... 56⅜
1879.... 99¾	1891.... 97½	1903.... 93¾	1915.... 68½	1927.... 54⅝
1880....100¾	1892.... 96¾	1904.... 91½	1916.... 61¾	
1881....103	1893.... 98¼	1905.... 91¾	1917.... 56½	

There was one great drawback, however, to the growing policy of capital export in the form of foreign loans, both public and private, and that was the difficulty of obtaining sufficient information concerning foreign borrowers, the circumstances surrounding the loan applications, and the conditions—political, financial, and economic—affecting British capital in foreign lands. Without sufficient facts, proper analysis is impossible, and a loan improperly analyzed is like a leap in the dark. Then, too, the presence of a high interest yield is always indicative of risk, for the law of capital returns is as delicately adjusted as a lady's watch and high yield is inconsistent with acknowledged safety. True it is that other factors affect the rate of yield, and the mere fact that a loan is made abroad does not mean that it is in any way unsafe; nevertheless, especially where no system of long-distance loan analysis has been perfected, the element of safety is questionable in connection with the average foreign loan. It will thus be appreciated that, while the British people became a great creditor nation early in the past century, they did not arrive

[7] Foreign Credit Facilities in the United Kingdom, Leland Rex Robinson, Ph.D., p. 182 and completed to date.

at a satisfactory method of exporting capital for a considerable period, indeed, about forty years.

During the first half of the nineteenth century, when England's leading bankers were seeking an outlet for investment funds, there was another element in the general situation which had a definite effect upon the evolution of a new investment form intended primarily to safeguard and facilitate the making of foreign loans. This element was the occurrence of several eras of intense speculation in the British financial world. Each wave of speculation seemed to cause far more loss in the field of foreign investment than in connection with domestic loans; and it was eventually appreciated that this was the case because no adequate financial machinery existed by which foreign offerings could be thoroughly investigated and scientifically analyzed, and, furthermore, that there was no reliable system by which spread of risk for investors could be obtained through diversification of security.

The problem having presented itself to many interested minds, the solution was not long delayed. The investment trust made its appearance as a financial device constructed primarily to enable the large group of middle-class investors to obtain the benefit of expert management in placing their money and at the same time to be insured against loss by diversification of securities, which, through the operation of the trust system, the managers would be able to obtain.

The London Financial Association and the International Financial Society, both of which were formed in 1863, seem to have been the earliest British investment trusts.[8] For the next twenty years investment trusts developed rather slowly, there being only twelve such organizations listed upon the London stock exchange in 1886; but the gradual decrease in interest return on Government bonds, which continued over this period, together with the development of imperialism as a feature of British politics, brought about a period of renewed activity in trust development during the eighties.

The details of the investment-trust movement in its early stages are interesting. After several periods of depression incident to eras

[8] The first investment trusts of which there is record were organized in Great Britain in 1863. These were the London Financial Association and the International Financial Society. The conditions which led to the organization of financial trusts in England find a close parallel to those of the United States to-day; the activating motive was the same, namely, the protection of small investors through the pooling of resources and the command of more expert financial judgment than was at the disposal of a single individual of limited means.—*Wall Street Journal*, Nov. 23, 1924.

of unguided and unrestricted speculation, which especially affected foreign securities, the investing public of Great Britain became exceedingly chary of the new avenues of investment constantly opened abroad, but nevertheless became more and more eager for larger returns upon invested capital. This was especially noticeable because there has existed for many years in England a so-called leisure class, a group of people depending largely upon income derived from landed holdings, without business knowledge, and earnestly desirous of obtaining the largest possible yield upon invested capital. This class has been variously called "country gentry," "country squires," and "landed proprietors"; but the point is that almost every member of this class has depended for investment advice upon some solicitor, factor, or agent, residing in a metropolitan center such as London, Edinburgh, or Liverpool, whose word has been taken with great confidence in connection with investment opportunities.

Undoubtedly it was the constant application for investment advice by men of leisure to men of business which brought about, approximately at the time of the American Civil War, the formation in England of what is now known as the investment trust. This new investment form took the place of the individual solicitor or agent who, up to this time, had discharged the functions thereafter performed by it. In other words, the investment trust shifted from the individual to a group or association the burden and the responsibility of the investigation of investment opportunities, the purchase and repurchase of securities, the giving of investment advice, the shifting of invested funds, and the general supervision and active management of the money of the investing class which stood in need of the two vital elements supplied by the investment trust, namely, expert advice and management of funds for investment plus diversification of investment securities.[9]

During the first period of its operation, covering somewhat more than a quarter of a century, the investment trust was in a formative and experimental condition. During this time we may note that there were comparatively few restrictions placed upon the powers of the trust managers. They were allowed wide latitude in placing their clients' funds; they had broad powers to sell and resell investments purchased with their clients' money; in short, they were held accountable only for results.

Naturally, a comparatively new idea endowed with so much power

[9] Foreign Credit Facilities in the United Kingdom, Leland Rex Robinson, Ph.D., p. 181 et seq.

and popular good-will was bound in some cases to run to excess. It is true that in these early days the trust managers made investments in new and untried securities, which in some instances resulted in unfortunate losses and made it necessary to revise downward in a drastic manner the capitalization of a number of the early investment trusts.[10]

It should not cause wonder that such a period should follow the genesis of a new and powerful investment form resting essentially upon trust and confidence in its managers. It is to be noted here that this period is an old story in England and in Scotland, but at the moment seems to be just beginning in the United States. In other words, it would seem probable that, as we in this country are just beginning to experiment with the investment-trust form, we shall during the next decade pass through a period similar in a general way, although undoubtedly different in details and in manifestation, to that period of approximately twenty-five years which occurred immediately after the investment trust was initiated as an important feature in the financial life of the British Isles.

In Great Britain to-day, investors have learned that conservatism is an important feature in the management and operation of any investment trust. They have discovered that, while sufficient latitude should be allowed to trust managers to enable them to take advantage of every opportunity for legitimate profit, nevertheless, rigid restrictions should be insisted upon to prevent undue speculation, and to make it impossible for trust managers to use the funds of their clients for their own selfish purposes or for the purpose of extending unmerited aid to engaging business friends.

The year 1890 was a sad and solemn one in the history of British investment trusts. Just as to-day in the United States the firm of J. P. Morgan and Company stands for all that is solid, upright, and reliable in the field of finance, so in our fathers' time the same qualities were attributed by the English people to the old and thoroughly established firm of Baring Brothers. That firm had had a long and honorable career. On many occasions it had assisted the Bank of England in its operations of national and international finance. It had acted as fiscal agent for the United States and many other countries, and it bore a reputation comparable only to that of the House of Rothschild, the great Jewish bankers who then as now dominated the finance of the world. Therefore, when suddenly at the beginning of the last decade of the past century, the great House of Baring

[10] See History of Stock Conversion Trust, infra, p. 119.

began to totter toward its fall, a feeling of national insecurity and of financial panic spread like wildfire among British investors, and when the crash actually came it caused a period of depression and an era of readjustment which could only have been exceeded if the Bank of England itself had suddenly passed into a condition of insolvency. Shortly after the Baring crisis, the panic of 1893 swept over the United States and adversely affected many of our securities which were held in the treasuries of British trusts. The two situations combined made it necessary for many of the British and Scottish trusts to indulge in a careful revaluation of their securities, comparable to the general scaling down of inventories which was forced upon American business men by the unexpected and radical depression of the year 1920.

The result of such a general revaluation of investments by trust managers was both unpleasant and salutary. It was found that many trust managers, lured on by excessive power over the funds of other people, had not given their clients the expert management which constitutes one of the two vital factors connected with the investment-trust form. It was necessary to squeeze the sponge, rearrange balance sheets, take losses where losses had been incurred, and amortize them over a period of years. In some cases, capitalization had to be drastically changed; in others, new securities must perforce be issued to make up the funds so casually lost. The net result was that by 1900 a very different investment situation existed in connection with the British and Scottish trusts, a situation far more conservative and far more hopeful for the future than that which had existed during the first quarter-century when the investment trust, a sturdy infant in the financial field, had flourished and grown to a precocious maturity.[11]

The years from 1900 to 1914 were marked by an increasing tendency on the part of British trust managers to invest their clients' funds in American securities, especially in the stocks and bonds of American railways. This, it will be remembered, was the period of final expansion on the part of the last great generation of American railroad builders. It was during this time that Edward H. Harriman, James J. Hill, and Alexander J. Cassatt pushed to completion the great transportation systems of the United States. During these years, the Union Pacific and the Northern Pacific attained their highest level of efficiency and power, and the great New York termi-

[11] Foreign Credit Facilities in the United Kingdom, Leland Rex Robinson, Ph.D., "Investment Trust Development," p. 183.

nals of the New York Central and the Pennsylvania were built and placed in operation. It was an era of accomplishment, a time when great plans were completed and mighty figures still dominated the stage; and a great part of the huge sums necessary for this expansion of American railroads came from British investors and came through the medium of the investment trust.

Therefore, we arrive at the year 1914 and find this situation: conservatism the rule of the day, both in the selection of securities and in the general management of British trusts. Furthermore, we find that of all avenues of investment that leading toward American securities had become most popular and was most frequently followed by the wise and experienced managers of the British investment trusts.

With the advent of the Great War, there occurred a change in the financial situation so sudden, so bewildering, so kaleidoscopic, that it is difficult to follow its course or appreciate the surprising and radical change which it wrought. Almost overnight, the one great insistent need of the British nation was credit based on gold, and the place where gold and extensive credit were most quickly and easily to be obtained was the great Republic overseas. To get that accommodation the British must give value, and as a nation Great Britain had in its possession evidences of value which could readily be mobilized and exchanged. These evidences of value were the stocks and bonds of American railways, American utilities, and American industrial corporations, which the British people had been accumulating for investment purposes over a long period of time.

We have noted that, for a period of some twenty-five years prior to the Great War, the investment trusts, as a matter of sound investment policy, had been steadily acquiring American securities and storing them up in their treasuries. Hence, when the time of stress arrived and it was necessary for the purpose of national salvation to obtain huge credits on short notice, the investments trusts of England were able materially to assist the British Government in attaining this vitally desirable end.

It is interesting to note that during the period of the War, from 1914 to 1918, the British trusts sold a large proportion of their American investments, or, in lieu of sale, deposited them with the British Government for purposes of financial mobilization, obtaining in return a Government income guarantee. It is also interesting to note that a large part of the money obtained by the trusts from the sale of American stocks and bonds was promptly and properly rein-

vested in the war loans of the British Government. This situation was well described in an article appearing in the *Wall Street Journal* for December 29, 1924:

There is a drift from government to industrial securities. During the war most investment trusts patriotically bought war loans. Later loss in these through depreciation of the pound nearly offset gains through appreciated industrial values. In the gilt-edged investment field, notably in government security revenues, there has been a depreciation in monetary values of 40 per cent. Nathaniel Spens, chairman of the Stock Conversion & Investment Trust, Ltd., calls attention to this fact, saying that his company has reconstructed its capital on this basis.

The British Steamship Co. state that their holdings in government securities have been heavily reduced, and proceeds invested in industrial securities.

Keynes and others are conducting a campaign against continued heavy investments abroad, claiming that the money could better be spent in improvements at home. The subject has attracted some discussion, but has not as yet modified the investment policy of the investment-trust companies.

Colonial investment fell off this last decade in countries like Australia principally because of bad crops. Six years of drought killed pastoral shares as well as sheep. This class, however, is picking up with the improving wool market. First Merchants Trust complains of losses on farm mortgages everywhere, including the United States and especially in the Argentine. There is less inclination to invest in Brazil because of political troubles, and less in the Argentine because of growing hostility to foreign enterprise and to foreign-owned public works, and also because of the slump in the Argentine dollar.

Investment trusts had heavy losses to write off because of depreciation in European governments' securities. It took most companies up to this last year to complete this. At the same time such loans continue in favor with investment trusts where the rate of interest is sufficiently attractive. They subscribed heavily to the Austrian and Hungarian loans. They advanced money to Czecho-Slovakia and will undoubtedly take part in Polish and other issues now on the horizon. Some investment trusts have also gone into the German loan. Because of the fact that not more than one-fifth of their investments can be made in any one country except England, no investment trust was put out of business by the slump in European gilt-edge securities.

The close of the Great War left the British trusts in an unprecedented and decidedly delicate position. Many of their securities had been disposed of at forced prices, and much of the money derived from such sales had been reinvested in Government securities of comparatively low yield. The income guarantee of the British Government was only temporary in character; and it was quite evident that,

unless some new factor supervened to extricate them from the unexpected and unusual position in which they found themselves, many British trusts would sustain large losses, losses which in many instances would undoubtedly affect their solvency.

At this point the wheel of fortune once more revolved and stopped in a position favorable to the British trust managers. America, the great neutral of the early war years, emerged from the conflict hardly touched financially by the losses and sacrifices of the time, and with her strength immediately reflected in the value of the American dollar. Exchange rates were all in favor of the American unit of value, and British trust managers were quick to see and seize the opportunity given them by unimpaired dollar values and to sell at considerable profit their remaining American investments. With the profit thus realized, they repaired in many instances their war losses, and as the years went on came into positions even more secure than they had previously held.

The most recent feature, however, connected with the investment policy of British trusts is the trend of reinvestment of capital funds since the War. Naturally, British trusts have gradually retired their participations in Government loans and have been compelled to seek new avenues of investment for the cash funds received by them from the sale of their American securities. It is interesting to note that these avenues of investment have, generally speaking, been away from America, and that the great mass of money always at the disposal of the British investor no longer seeks our shores in anything like the volume which was the rule prior to 1914.

One of the British investment trusts, which, as its name suggests, was originally formed largely for the purpose of investing its funds in American securities, reveals an interesting change in policy in the course of its Annual Report filed February 5, 1925, viz.:

The following shows the geographical distribution of the trust's securities (The United States & General Trust Corporation, Ltd.):

Great Britain	42.4%
British Colonies and Dependencies	9.1%
United States of America	5.8%
South America:—	
Argentine	13.2%
Brazil	3.5%
Other South and Central American	9.7%
Continent of Europe	8.8%
Other Countries	7.5%
	100.0%

There is more than one reason for this radical change of investment policy, but one important reason is the effect upon British investment trusts of the American income tax. It is not to be denied that British investors have found that, although the American interest rate still exceeds the average Continental yield, nevertheless, it is materially reduced by the administration of the income tax law. British trusts necessarily pay heavy taxes, both income and excess profits, to the British Government, and in addition to such taxes they have been compelled to submit to double taxation upon their American securities, with the result that they have found it more profitable and much less troublesome to invest their capital funds elsewhere.

In addition to the foregoing reason there is a growing tendency in Great Britain, as a result of the close union of the Empire under the new national system known as the British Commonwealth of Nations, to develop and foster British colonial enterprises. Therefore, especially in view of the American income tax provisions, the funds of British trusts have been definitely directed, since the War, toward the development and upbuilding of British colonial enterprise.

The tendency to place British funds in the South American investment field has also become much stronger and more definite since the War. Whether this tendency is due merely to an appreciation of commercial opportunity or to a deeper sentiment based on an ambition, or at least a desire, to separate permanently the great South American Continent from Spanish domination, both political and commercial, and attach it to English influence and English trade, it is, of course, impossible to say; but, whatever the reasons may be, the result is unquestionable. Hence, since the War, we find that British investment trusts are placing their clients' money not in the United States but in Government loans, domestic enterprises, colonial securities, and South American stocks and bonds.[12]

We may also observe that the disturbance, both as to capital and income, caused by the Great War has apparently entirely subsided, and to-day British investment trusts appear to be entering into a new and prosperous era of development and expansion in hitherto unoccupied investment areas. Hence, so far as these interesting investing companies are concerned, we appear to be standing at the dawn of a new day.

[12] See Chapter VI, infra.

CHAPTER III

LAWS GOVERNING BRITISH INVESTMENT TRUSTS

COMPANIES ACTS, 1862–1927

In Great Britain, most of the investment trusts are incorporated under the so-called "Companies Acts," and the nature of these Acts should be understood by all who are interested in the legal structure of British trusts.

In the United States, up to this time, business has been too fluid to lend itself readily or willingly to confinement within the boundaries of any code or codes; but in England, for more than sixty years, there has existed a code of corporation law which has given general satisfaction.

The basic reason for the enactment of the Companies Acts was the desire on the part of Parliament to cure a bad situation which had resulted from the unrestricted operations of the company promoters. Much money had been lost as the result of untruthful prospectuses; the famous Salomon case had shown the possibility of a clever and unscrupulous person's fraudulently operating a one-man corporation; and in many particular instances investment propositions had been overloaded with watered securities, much to the detriment of trusting and uninformed investors.

The result of all these objectionable practices was the passage of the famous Companies Act of 1862, officially cited as 25 and 26 Vict. c. 89: "An act for the incorporation, regulation and winding up of trading companies and other associations, adopted August 7, 1862." This act is the Magna Charta of British business law and is thus referred to by Sir Francis Beaufort Palmer in his well-known work on the subject. (Palmer's "Company Law," Eleventh Edition, p. 11.)

The main object of the Act of 1862 (a masterpiece of legislation) was to throw open to all the coveted privilege of carrying on business with limited liability. The principle of the Act was to allow the greatest freedom both in the formation and working of a limited-

liability company, and at the same time to insure that those who dealt with such concerns should be informed that the liability of the members was limited. Abandoning the old cumbersome system, introduced by the Act of 1844, of provisional and complete registration, the Act made the formation of a company a perfectly simple and inexpensive process: all that it required for the formation of a company was seven signatures to a written or printed document called a memorandum of association. This, on payment of a small fee, was to be registered, and a certificate of incorporation to be given, and thereupon the company was at liberty at once to commence business. It was not bound before starting business to have any capital paid up or subscribed beyond the seven shares to be taken by the signatories of the memorandum; it might start on its commercial career without any further subscription, might at once enter into contracts, borrow money if it could, and carry on business. The great boon of limited liability was secured by the insertion in the memorandum, as part of the name of the company, of the magic word "Limited," together with a clause stating that the liability of the members was to be limited.

Palmer states that, owing to its successful operation, the Act of 1862 was amended and extended by eighteen subsequent Acts of Parliament between 1862 and 1908. He then goes on to say:

The existence of these eighteen Acts with their many provisions, original, supplementary, amending, re-amending, substitutionary and repealing, rendered it a difficult task even for the trained lawyer familiar with the Acts and decisions to know how the law stood, much more for the business man, and long before 1908 there was a growing consensus of opinion that the law needed simplifying, and that the living provisions of the law ought to be brought together in an orderly form under one comprehensive enactment, so that he who ran might read one Act in place of the mosaic of many separate Acts. This has now been accomplished by the Companies (Consolidation) Act, 1908 (7 Edw. 7, c. 69), and it marks a new and important starting point in the history of our company law. This Act has been amended by the Companies Act, 1913, with reference to private companies.

By the Companies (Foreign Interests) Act, 1917, the Board of Trade has been given powers over companies whose articles of association restrict or limit the rights of aliens, and by the Companies (Particulars as to Directors) Act, 1917, certain further obligations have been imposed on companies as to furnishing to the registrar particulars as to their directors.

The Act of 1908 itself is little more than a consolidation of the existing law as already expressed in the Acts of 1862 to 1908. The alterations are few and trifling, but some of them change the law

considerably. See Thomas *vs.* United Butter Co. (1909), 2 Ch. 484. The drafting is in the main clear, but (alas!) practically no attempt has been made to embody in the Act the relevant decisions of the Courts—decisions which throw so great a flood of light on the operation and meaning of the repealed Acts, and of the new Act.

In connection with the investment trust, there are several provisions of the Act of 1908 which should be emphasized and to some extent explained.

In the first place, it will be noted that, as in the case of most private corporations, the impelling reason for the incorporation of British trusts under the Companies Acts is to obtain the benefit of the limited liability thereby conferred. The British law differs from the American statutes in this particular, in that it requires the use of the word "Limited" in connection with the names of all corporations formed under the Act so that notice may be given to the public that the liability of the incorporators is not general but particular.

British trusts, like other corporations, are formed under the provisions of the law by the execution of two basic documents: (1) the memorandum of association, and (2) the articles of association. Also, in many instances where there are issues of debentures, there is a trust agreement for the benefit of debenture holders which closely resembles the trust mortgage of American finance.

The memorandum of association is similar to the charter of an American corporation. Under the Companies Act of 1908, it is required to state, among other things: (1) the name of the company; (2) in what part of the United Kingdom the registered office is to be situated; (3) the objects of the company; (4) that the liability of the members is limited; and (5) the capital of the company.

At least seven persons must subscribe to the memorandum of association, or at least two persons in the case of a private company Opposite the name of each subscriber must appear the number of shares, not less than one, taken by the subscriber, and each signature must be attested by a witness. The memorandum must be written or printed, or partly written and partly printed. Separate attesting witnesses are required.

The articles of association are similar to the by-laws of an American corporation. There is, moreover, a peculiar and interesting provision of the British law to the effect that, while any corporation may adopt its own articles if they are not inconsistent with the provisions of the Act or the general law of Great Britain, nevertheless, in the absence of such adoption and where no such articles are registered

as the articles of association of the company, the company must consent to be governed by a standard set of articles contained in the Act under Table A. Generally speaking, all companies form and register their own special articles of association; but in a considerable number of cases incorporating companies have submitted to the standard form contained in Table A, sometimes with necessary modifications and sometimes just as it stands.

The articles of association are required to be printed and signed by the subscribers to the memorandum and attested in the same way as in the case of the memorandum.[1]

In all cases observed by the author, investment trusts formed under the Companies Acts have specifically repudiated the set form of articles of association provided in Table A and, in each and every instance, have substituted their own articles. This, of course, would naturally occur in connection with such a highly specialized association as an investment trust.

Another interesting feature of the British Companies Acts which is directly reflected in the structure of British investment trusts is the provision made for what is known as share capital, together with further provisions for its subsequent splitting up into preferred and ordinary stock. These two kinds of stock are, of course, analogous to preferred and common stock in American corporations.

In this country we do not have two operations connected with the allotment of an interest in corporate capital. In England, however, the shares in the capital of a corporation are first distributed, and subsequently these shares are split up, a certain proportion of each share being converted into preferred stock and a certain proportion into ordinary, or as we should say, common stock. As will be subsequently seen, this method of capital distribution is of basic importance in arriving at a final set-up of capital interest in any investment trust.

While dealing with this part of the subject, it may be well to mention the fact that, in the majority of British companies organized under the Companies Acts, money is borrowed from outside creditors, not primarily through bond issues as in the case of American corporations, but through the issue of what are really nothing more than certificates of indebtedness. These certificates either form a general unsecured lien against all the property of the corporation and are

[1] Company Law, Sir Francis Beaufort Palmer, Eleventh Edition, Chapter IV, p. 37.

based upon the company's credit, or else far more closely resemble American bonds and are issued under the provisions of a special deed and agreement of trust, with definite property security and a prior lien reserved under the provisions of the trust deed. These certificates of indebtedness are known by the generic name of debentures and are more generally used and in better repute than the securities of the same name which are frequently issued in the United States. The latter, as a very general rule, have no security except the general credit of the issuing corporation, and are almost always subsequent to a number of antecedent bond issues upon the corporate property.

Another curious feature of debentures in England is the frequency with which such issues are made perpetual or irredeemable, that is, payable only in the event of the winding up of the corporation or in the case of a serious default by it. American corporations have generally adhered to the principle of making all security issues payable at some future date; although our practice for many years has not squared with this theory, and many of our ablest financiers have given clear evidence of a belief that money borrowed for corporate purposes may readily be regarded as a perpetual debt, and that if the property is well kept up and the interest promptly paid, no thought need be given to the problem of eventual maturity. The better trend of opinion in America to-day, however, is distinctly in favor of having a definite date of maturity for corporate obligations that are not of an enduring character, and providing sinking funds and other devices for the purpose of making it possible to pay each debt promptly upon the date when it is due.[2]

It is believed that in England also, at least in the case of the British investment trusts, the same theory is becoming distinctly more popular to-day than in the past.

Since debentures form the principal medium of fund borrowing on the part of British companies, it follows that in many instances a number of series of debentures may be issued at different times by the same company. It therefore becomes important for the issuing company to define clearly the exact position of each debenture series, the nature of security behind each series, the date of issue and date of maturity, and all other indicia which may be necessary at some future time to determine with exactness the question of priority as between the holders of debentures of different series put out by the

[2] Corporation Finance, Edward S. Mead, Ph.D., Fifth Edition, p. 62.

same corporation. Such precautions are particularly necessary in the case of investment companies where, as the business enlarges from year to year, the public is frequently invited by means of new debenture issues to embark its funds in the various ventures of an investment trust.

Upon the point of the security-supported debentures, it should be realized that while it is quite possible under the Companies Acts for corporations, by means of the provisions of the trust deed, to segregate specific property in support of a debenture issue, nevertheless, the very nature of investment trusts is such that ordinarily no such allocation of specific property is made in connection with debenture issues by them. In other words, the holder of an investment-trust debenture has a floating charge or lien against all of the securities held by the trust, but he has no specific interest in any of them.

In the event of a default on the part of the company in the payment of interest, or, if the debenture is one of a terminable series, in case the principal of the loan is not paid at maturity, the debenture holder may invoke legal process to obtain the return of his loan, either interest or principal, or both. So long as no default takes place, however, it is the English custom to deny him any definite interest in any specific investment. This custom differs radically from that now in vogue in America in connection with a number of so-called investment trusts, particularly those issuing securities termed "bankers' shares," which give their holders certain property rights in a definite number of specific securities.

It is interesting to examine the protective provisions of a particular deed of agreement and trust entered into for the benefit of debenture holders. Such a deed will be found in the Appendix to this book at page 303.[3]

Referring to this deed, which was made December 19, 1923, by the Second Scottish Western Investment Company, Ltd., incorporated under the Companies Acts, 1908 to 1917, and Sir John Trail Cargill, Baronet, and Timothy Warren as trustees for the holders of certain debenture stock, we find that the share capital of the company is £500,000, originally divided into 50,000 shares of £10 each (all of which were subscribed and issued for payment of the full amount thereto in each), and now represented by £300,000 of 5 per cent preference stock and £200,000 of ordinary stock. We also find that the Board of Directors of the trust, desiring to borrow £300,000 for

[3] Deed of Agreement and Trust for benefit of debenture holders, Second Scottish Western Investment Co., Ltd., See Appendix A, p. 303.

the purposes of the company at 5 per cent, have created that amount of debenture stock payable at par, May 15, 1964, and redeemable at the company's option wholly or in part on May 15, 1944, or at any time thereafter on six months' notice, at the rate of £102 10s., par £100.

The following are some of the principal provisions of the trust deed; viz.:

1. The trustees are to hold legal title to the debenture stock, while the stockholders are to be regarded as the beneficial owners of their respective portions of the stock.

2. As previously stated, the stock may be redeemed after May 15, 1944, and at such time there are provisions for its redemption closely resembling those contained in the ordinary American corporation mortgage relative to the retirement of bonds by purchase through the sinking fund.

3. The following provision is interesting and important:

> The Company hereby agrees with the trustees that, so long as the stock or any part thereof shall remain outstanding, the Company will not borrow either permanently or temporarily from any person or persons, or from any company or companies including specially any banks or bankers, any sum or sums of money beyond the sums of such amount that the total sums borrowed by the Company at any time, including the stock for the time being outstanding, will not exceed the subscribed share capital of the Company for the time being, with the addition thereto of a further sum for temporary purposes limited to £100,000 for which specific security may be given; and the Company further agrees with the trustees that, in the event of the Company's share capital being increased beyond the existing authorized amount of £500,000, any sums which may be borrowed in respect of such increased capital will not be borrowed or secured in such way as to rank preferable to the stock.

It will be observed that such a limitation on the borrowing capacity of the trust is radically different from the policy to which many American corporations adhere, and which has been reflected in the provisions of the Edge Act.[4] A corporation formed under this Act may borrow funds *many* times in excess of its capital.

[4] The Act of September 7, 1916, had amended Section 25 of the Federal Reserve Act so as to authorize the larger national banks, that is banks with capital and surplus of not less than $1,000,000, to invest in the stock of "banks or corporations . . . principally engaged in international or foreign banking." There seemed to be some doubt, however, whether this authority to invest in stock

4. The matter of default is next taken up. Default is stated to exist when the Company fails for one calendar month to pay one-tenth of any interest due its stockholders on debenture or preferred debenture stock, and, generally speaking, if the company becomes insolvent either voluntarily or involuntarily, or without actual insolvency omits to pay its just debts.

5. Then follow numerous provisions governing the action of the trustees in the event of default and the steps necessary for them to take in order to protect the interest of the debenture holders. As these are largely formal, they need not be minutely discussed here;

of banks or corporations engaged in banking gave the right to invest in stock of these debenture-issuing or investment corporations. Furthermore, it seemed desirable for the encouragement of such corporations to authorize investments in their stock by all national banks, both large and small. Consequently, the Act of September 17, 1919, was passed authorizing national banks until January 1, 1921, and without regard to the amount of their capital and surplus, to invest in the stock of corporations "principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares or merchandise from the United States or any of its dependencies or insular possessions to any foreign country."

Section 25, as thus amended in terms, authorizes national banks, upon the conditions and subject to the limitations therein stated, to invest in the stock of banks or corporations, of the specified kinds, which are "chartered or incorporated under the laws of the United States or any State thereof"; but, as a matter of fact, no provision was made for the incorporation under Federal law of such banks and corporations until the enactment of the so-called Edge Act, approved December 24, 1919.

This Act added to the Federal Reserve Act a section designated Section 25 (*a*), which authorizes the organization of corporations "for the purpose of engaging in international or foreign financial operations," thus permitting the Federal incorporation of both types of corporations referred to in Section 25, that is, banks doing a commercial banking business, and corporations issuing debentures and doing an investment business. The Act also describes the powers of such banks and corporations and gives to the Federal Reserve Board full power to examine, supervise and regulate their operations.

Section 25 (*a*) as originally enacted required that corporations organized under it should have a capital of not less than $2,000,000, one-quarter of which must be paid in before the corporation is authorized to commence business, and the balance in 10 per cent installments at the rate of one every two months. This requirement was modified by the Act approved June 14, 1921, which provides, in effect, that a corporation with an authorized capital in excess of $2,000,000 may apply for the consent of the Federal Reserve Board that such excess be paid in on call of the board of directors, provided, that in all events 25 per cent of the total authorized capital must be paid in before the corporation commences business.—*Annals of American Academy of Political and Social Science*, Jan., 1922, No. XCIX, No. 188, p. 120.

but it may be said that the object is, after sufficient notice, to enable the trustees to get possession of the trust property, dispose of it for the best price or prices possible, and use the proceeds as a fund to liquidate the debt due the debenture holders after the payment of all necessary costs, charges, commissions, etc. In facilitation of this general purpose, a personal bond is given by the investment trust to the trustees for the protection of the debenture holders. This bond is interesting in its close resemblance to the usual bond which accompanies every real estate mortgage both in England and in America. It is curious, indeed, how the old customs of the British Common Law persevere even in the complex modern documents of latter-day corporation finance.

In conclusion, it will be noted that under this particular deed of agreement and trust there is no segregation of specific securities for the benefit of debenture holders. Nevertheless, the purpose of the deed and agreement undoubtedly is to protect the debenture holders by means of a solemn trust declaration and the institution of definite machinery for enforcing the trust obligation in the event of default on the part of the company in the repayment of either the interest or principal of the debenture bond.

Another feature of the Companies Act which is frequently invoked by investment trusts is the provision permitting a company limited by a certain authorized issue of shares to alter the conditions of its memorandum and provide for the increase of its capitalization. This power is exercised by special resolution on the part of the altering corporation. The same method is employed in the case of corporate reorganization or where it is desired to reduce share capital.

It is interesting to note that the British law goes into far more detail regarding the actual management and administration of the corporations formed under its provisions than is the case in most corporation acts adopted by American legislatures. The meeting and proceedings necessary to be held to effectuate the purposes of British corporations are quite minutely described and provided for in the Companies Acts, and, as is often the case, the British employ a slightly different terminology from that used by Americans, and one must always be alert to comprehend the exact meaning of the words employed. For instance, where an American act would deal with regular and special meetings of a board of directors, the British law, meaning the same thing, speaks of such meetings as ordinary and extraordinary.

One advantageous feature of the British Act is the way in which

all information regarding the incorporation and operation of companies is carefully centered in the office of the registrar, a public official who is to be notified of every important step a company takes. Although, in connection with investment trusts, we have little need to dwell upon the subject, it should be observed that one of the principal sections and one of the best features of the Companies Act is the careful provision for restricting and publishing the actions of promoters and for safeguarding the company prospectus. Statements of fact are clearly differentiated from matters of opinion; and, where statements of fact appear in such a prospectus, the promoters are held strictly liable, both civilly and criminally, for their accuracy.

In view of the long and successful record of most British investment trusts, they have had little occasion to avail themselves of the carefully worked-out provisions of the Companies Acts relative to winding up, or, as we should term it, dissolution. The machinery is there, however, in case any trust ever needs to use it, and compared with our complex bankruptcy system it is a decided step forward. When a company is in difficulties, its affairs are handled under the British Act by an official receiver and liquidator, whose position is analogous to that of the American trustee in bankruptcy, and, in the last analysis, by the court itself. An interesting feature, in this connection, is the provision for a committee of inspection, which is to consist of creditors and contributories of the company, or persons holding general powers of attorney over creditors or contributories, in such proportion as may be agreed on by the meetings of creditors and contributories, or as, in case of difference, may be determined by the court. This committee meets at such times as they may decide upon, at least once a month, and the liquidator or any member of the committee may also call a meeting of the committee if, as, and when he considers it necessary.

In examining the articles of association and the yearly statements of numerous British trusts, it is interesting to note the care taken to provide for periodical audits of the financial affairs of these companies. This care is not accidental but is directly traceable to the wise provisions of the Companies Act of 1908, which in reality simply repeated those of the great Act of 1862.[5]

In concluding this part of the subject, it may well be said that much of the success in operation which British trusts have enjoyed is due to the excellent code provided by the Companies Act, under

[5] Company Law, Sir Francis Beaufort Palmer, Eleventh Edition, p. 505 *et seq.*

which they have to a great extent been incorporated and under which they function. This would seem to be another argument for a Federal incorporating statute in the United States. It is perfectly obvious that until corporation law in America is freed from its present condition of servitude to state statutes we shall be severely handicapped in our efforts to simplify the terms and the provisions of our business law.

CHAPTER IV

FORMATION AND ORGANIZATION

PRINCIPAL TYPES

Pure Investment Trust.—It would seem that under this head a definition of a pure investment trust is immediately in order. Hence, the following characteristics may be stated as inherent in a British trust of unmixed type, viz.:

1. Incorporation under Companies Acts for the general purpose of making a profit through judicious investment and reinvestment in a list of diversified securities, such purpose to be attained through expert management, which is to be representative at the same time of those who own the share capital of the trust and of the creditors, whose money, usually obtained by sale of debentures, is employed in the sale and resale of securities;

2. Restriction of the borrowing power to a point not to exceed the share capital;

3. Restriction, usually by definite percentages, as to the employment of the trust's funds, such restriction to cover type of enterprise, type of security, and geographical location of investments;

4. Restriction of the power of the trust management to acquire a controlling interest in any company or companies whose securities are purchased for investment purposes. This restriction is an important one because it is one of the most vital points of differentiation between the British trust in its pure form and other companies which in many ways are quite similar but which nevertheless are much more complex and are operated in a strikingly dissimilar manner.[1]

[1] The following summary of the general characteristics of investment trust companies was courteously furnished the author by the well-known investment banking house of Morgan, Grenfell & Company of London:

"(1) The name 'Investment Trust' is probably responsible for some misconception in U. S. A. as to the practice and functions of the London Companies usually classed under that category.

"(2) The term 'Investment Trust' has no legal significance. Primarily the Companies do not carry out any functions of a Trustee in the legal sense nor

Investing and Promoting Companies.—These are companies which have sprung up in England, and to a considerable extent in France

are they restricted by law in the selection of investments as Trust Companies in America are. A few of them may act as Trustees for an issue of Debentures just in the same way as Trust Companies on your side may act as Trustees under a mortgage securing an issue of Railroad Bonds. This part of their activities however is entirely negligible.

"(3) Primarily these Companies are merely Corporations formed under the ordinary Companies Acts, their purpose being to invest their capital in bonds, stocks and shares and other securities.

"(4) In view of (3) the scope and nature of the business conducted by any particular Trust Company will depend largely upon the personnel of its management.

"(5) The success of the Trust Company movement in this country is largely due to Mr. Robert Fleming who really initiated the movement and the most successful and leading Trust Companies have largely followed his methods, which are briefly as follows:

"(*a*) By careful scrutiny of investments by those skilled in the subject it is possible to get a higher yield than is available for the ordinary man in the street without taking any undue risk, also by buying in bulk it is possible to secure better terms than are available for the individual investor.

"(*b*) By care in spreading the investments of the Company both geographically and according to classes of investments the possibility of having large losses from any one cause is eliminated. Reference to the enclosed Report of the Metropolitan Trust Company, Ltd., a very well-known and prosperous example of this class, will give an idea as to how this spreading of risks is carried out.

"(*c*) While on the one hand the Trust Company certainly hopes not only to make a good revenue but also a capital profit out of its investments, on the other hand it does not so to speak take investments with the view of turning them over continuously and making dealers' or jobbers' profits. It takes the investment rather with a view of holding it more or less permanently but in the belief that having secured the investment originally on favorable terms it will sooner or later be salable at an enhanced price.

"(*d*) In many of the leading Trust Companies capital profits are never distributed but placed to reserve thus increasing the capital value of the Trust Company's stock and increasing its future earning power, but for dividends on their stock the stockholders must rely upon the regular revenue received from the investments held by the Trust Company.

"(*e*) In the division of this revenue the most successful Companies have always been conservative retaining in the hands of the Company some portion as a set-off against possible defaults or disappointments in future years.

"(*f*) While the foregoing will give some indication of the general policy observed in the conduct of a Trust Company the success of the Company depends in the last analysis upon the sound judgment of the personnel responsible for the selection of the investments.

"(6) As already indicated the all-important factor is the personnel of the

and other Continental countries, during the past twenty-five years. While they resemble the true investment trust closely as to form, they

management. There are Companies masquerading under the head of Investment Trusts which are merely speculative machines or bucket shops but fortunately these are somewhat rare exceptions. Again, as some of the names indicate, Companies have been formed to invest in a particular class of stocks, for example:

Traction & Power Securities Co., Ltd.
Gas, Water and General Investment Trust, Ltd.
Rubber Plantations Investment Trust, Ltd.

Companies of this kind rather depart from the accepted principle referred to under head (5) (*b*) of spreading risks and many of them have subsequently taken powers to embrace all fields of investment."

An interesting description of investment trusts has also been received in a letter from M. S. Morrow, Joint Secretary of the Industrial and General Trust, Ltd., viz:

"An Investment Trust Company, as understood in this Country, is a Company formed to invest the subscribed capital of its proprietors in Bonds, Preference and Ordinary (Common) Stocks and Shares in such a way as to minimize risk, on the principle of spreading the interest of the Company over a wide field of industries, Government securities, and also geographically. By employing expert knowledge through its Board of Directors and its Officials it is able to acquire sound securities before they attain a high price caused by growing popularity, and, when they become generally known and consequently stand at high values, the investments are usually realised and the proceeds invested in other securities which promise capital appreciation. By this means also a higher yield is obtainable by way of income than is available, as a rule, to the ordinary investor. Securities can also be acquired in larger amounts and consequently on ground-floor terms. It is not the policy of British Trust Companies to distribute sums realised by improvement in the value of their investments as dividends to their proprietors, such increment being placed on one side in the form of reserve and used to strengthen the Revenue account by the increment of the additional income derived from reserves, and also to provide against possible losses of capital when unfortunate investments are made. The actual revenue, or income, received in the shape of interest on bond holdings, and dividends on Preference and Ordinary Shares, is distributed on a conservative basis among the proprietors in the shape of dividends, but a portion of such income is almost invariably placed on one side annually to strengthen the reserves.

"Usually the capital, or funds, of an Investment Trust Company are raised in the first place in the form of Bonds or Debentures, Preference Stocks and Ordinary Stocks, the Bonds being secured on the assets of the concern, and as the proportion of bonded debt is not as a rule in excess of the combined amount of the Preference and Ordinary capital, it is found possible to raise the Debenture debt on low terms of interest, i.e., lower than it is practicable as a rule to invest

are essentially different in some important particulars, especially in connection with some of their purposes and methods of operation.

One class of investing and promoting companies is that which restricts its investments to one particular field, as, for instance, a trust that operates exclusively in railway securities, in electric shares, or in a certain type of industrials. Companies of this character oftentimes closely resemble in type and performance the holding companies so familiar to American financiers, with the distinction that the American holding company operates exclusively through stock control of subsidiaries, while the British trust may and frequently does obtain its control through the possession of a subsidiary's debenture debt or through securities of a creditor nature, although even under such circumstances it is always the part of wisdom, and usually

the proceeds. The difference in income goes to benefit the Ordinary capital in the shape of higher dividends than would otherwise be possible. The Preference Stocks usually rank in priority both as to capital and interest to the Ordinary Capital, and this has a like effect to the benefit of the dividends paid on the Ordinary or Common capital."

On the question of safeguards of investments, the views of Messrs. Paull and Williamsons, Secretaries of the Scottish Northern Investment Trust, Ltd., are of interest, viz.:

"You speak of safeguards for the Shareholders and Creditors of the Company. The safeguard consists really in the character of the Board and Officials, with, of course, the Annual Audit by professional Accountants.

"With regard to securities, the only restriction is that not more than 5 per cent is to go into one investment. In point of fact, there is no approach to any holdings so large, as you will see from the above Account that funds amounting to about £1,200,000 are distributed over 481 different undertakings. These were at one time largely in your country, but we were obliged during the War to realise a large part of our American holdings and these have not been replaced owing to the adverse rate of exchange which has prevailed until recently. Most of the investments are in this country and they are distributed over Debenture Stocks, Preference Shares and Stocks and Ordinary Shares and Stocks. In selecting these, we had regard first to safety, and second to yield, with which is necessarily bound up the prospect of capital appreciation.

"These Companies do not take any part in financing special enterprises, or in issuing Stocks for other Companies, the securities held being practically all bought and sold on the Exchange although we not infrequently subscribe to New Issues, and when we get the opportunity, we also underwrite New Issues, but subject to this limitation, that we confine ourselves to the class of security which we are prepared to take and hold on its merit as an investment. This, of course, enables us occasionally to get desirable holdings at a slightly lower price than that at which they might be purchased."

that of safety, for the British company to obtain a voting control as well.[2]

Let us now examine an interesting type of promoting company which is characteristic of certain investment tendencies in Great Britain. There are numerous investment trusts which not only restrict their operations within certain definite security fields, but couple with the sale and resale of securities the actual business operation of one or more subsidiary companies within the restricted field which the company has chosen. Thus, in the case of the Rubber Plantations Investment Trust, Ltd., the complete record of which, over a five-year period, will be subsequently reviewed, we find that in addition to purchasing, holding, and disposing of rubber shares, the trust in question also physically operates tea plantations in Sumatra and tea and rubber properties in South India. There are a number of other corporations of a similar character which are now being successfully operated under the general term of investment trusts. It

[2] Investing and promoting companies form a distinct class of British investment trusts and in many respects may be readily differentiated from the true form of British trust whose only purpose is the investment and reinvestment of its funds and which does not seek to promote or control the enterprises in which its funds are embarked.

In this connection the following quotation from the Annual Report of April 30, 1924, published by the British Empire Trust Company, Ltd., should prove of interest:

CARRYING ON THE BUSINESS OF AN INDUSTRIAL BANK; ARRANGING THE FINANCE OF INDUSTRIAL UNDERTAKINGS; UNDERWRITING AND ISSUING NEW CAPITAL

Of the Investments of the Company at the end of the financial year, 32 per cent. were in Government Securities and 47 per cent. were in Railway, Electric Railway, Electric Light and Power, Gas, or Water Power Securities. Of the total investments held, 62 per cent. were quoted on the London Stock Exchange, and have been taken at the lowest valuation as stated in the Auditors' Certificate. The Articles of Association provide that the "Directors may fix the value of any investments held by the Company which are not quoted on the Stock Exchange at such figure as they think a proper figure," and in accordance therewith the Directors have placed a low valuation upon the unquoted Securities. The Articles of Association specially provide that the Directors shall not be bound to publish a list of investments. The scope of this Company is not restricted to that of an Investment Trust Company, but a general financial business, of which privacy is an essential element, is carried on, and for this reason the Directors consider it to be impossible to depart from the practice established in the past in this regard.

It will be noted from the above that in addition to the usual business of an investment company, the British Empire Trust Company, Ltd., engages in a general industrial banking business—an unusual combination of activities.

is believed that a trust of this kind is analogous to certain American railroad corporations which, in addition to operating their own lines, have frequently owned stocks and bonds in other railway companies, sometimes even going to the extent of making property dividends of specific securities of other companies to their own stockholders.[3]

In concluding this review of the principal types of British trusts, it is observable that an experience of seventy years has simplified and standardized the forms employed, so that to-day we find the great majority of British trusts similar as to form and complying pretty strictly with the general characteristics above enumerated as inherent in every true investment trust.

On the other hand, a review of the American situation reveals the fact that, with only a few years' experience in the adaptation and employment of this investment-trust form to the necessities and uses of American finance, our financiers have already radically changed not only the general characteristics of the true British trust but have inaugurated several types which hitherto have not been found in the British field. It is not to be understood from this statement of fact that American financiers are open to criticism in thus inaugurating new and modified forms of the original investment-trust idea. There is no harm and much profit in initiating new and serviceable forms in accordance with the main theory upon which all investment trusts are based. It has already been pointed out that whatever criticism is due, so far as Americans are concerned, relates to the particular methods employed in accomplishing the modifications which have already been adopted. Although particular features are sometimes objectionable, there can be no objection to the mere fact of differentiation in form.

For years we have had, in the holding company, a strictly limited form of investment trust. Through the holding company many investors have obtained some diversity of risk, although in many instances they have not obtained expert management. Moreover, the diversity thus obtained has been slight in comparison with the diversity possible in connection with securities purchased solely for investment purposes by a true investment trust.[4]

[3] Corporation Finance, Edward S. Mead, Ph.D., Fifth Edition, 1923, Chapter XX, p. 237.

[4] The advantages of the investment-trust company are gradually beginning to be realised by small investors. For many years it has been a popular form of investment with those who were able to discover the favourable posi-

CAPITALIZATION

Size of Trust.—In discussing this topic, reference will be had to the information given in Table I, which contains a tabulation of data compiled from the annual reports of sixty-three British trusts. These reports are in each instance for one of the following years: 1924, 1925, 1926, or 1927.

In comparing the sizes of these sixty-three companies, it is informing to observe that the total assets of only five are less than £500,000; eight between £500,000 and £1,000,000; twenty-two between £1,000,000 and £2,000,000; twelve between £2,000,000 and £4,000,000;

tion in which such undertakings were placed. As Viscount St. Davids, at the recent annual meeting of the Premier Investment Company, pointed out, in referring to the successful progress made by investment concerns, "the investor in any one of these companies does not run any one overwhelming risk; there is no huge investment that might wreck the company if it went wrong. Secondly, their investments are spread about in a great number of different countries; and, thirdly, the money is put into investments of very many different kinds, the result being that the risks are successfully and widely spread. Then I should say that another reason of this success is that the investments are made by men who have learnt the investment business, and are more or less experts. You may say, 'But a private individual may do just as well.' Of course, he may do just as well if he is an intelligent man, and gives a great deal of thought to his investments—in fact, if he does with his own private investment what the directors of an investment trust do with other people's money. But even then the private investor has two disadvantages as compared with the investment trust. The first is that many of the best things are offered privately to the investment trusts before they are put upon the market; and the second is that, as regards a great number of securities, the investment trusts are able to get into them by underwriting, and, therefore, they get them at lower prices originally than the outside investor is obliged to pay."

Some idea of the experiences which befell Investment Trust Companies last year may be gathered from a study of the variations of the Bankers' Magazine index number of securities. Taking a total of 365 representative issues, the index number shows that with some little fluctuation values on balance advanced to a fair extent. In January, 1924, the figure was 112.2, and in February 114.3. In March it declined somewhat, but by April it reached 115.6, though May witnessed another slight setback to 115.3. In June the index number was 115.3, in July 115.2, and in August 115.8. There was another fall in September to 115.6, but from that month there was a steady rise, until in December the figure was 117.5.

A truer indication, however, of the trend of Stock Exchange values as affecting investment-trust companies is perhaps afforded if we omit from the index number the 278 variable dividend securities and follow the course during 1924 of the 87 representative fixed interest-bearing securities, since it is in such issues that trust companies are principally interested. This rose from 109.6 to 112.9.—*The Economist*, April 11, 1925, pp. 701 and 702.

TABLE I

British Investment Trusts—Balance Sheet

Report for Year Ending:	Investment Trust	Authorized Capital									Total Authorized			Issued Capital										Total Issued		
		Ordinary			Preferred			Preferred						Ordinary				Preferred			Preferred					
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	%	£	s.	d.	£	s.	d.	%	£	s.	d.
3/31/27	Scottish and Can. Gen'l	200,000			300,000						500,000			100,000			7	150,000			5				250,000		
11/30/26	Charter Tr. and Agency	500,000			500,000						1,000,000			500,000			5	500,000			5				1,000,000		
11/ 1/26	Northern American Tr.										2,000,000			600,000			18	900,000			4				1,500,000		
5/ 1/24	First Scottish American Tr.										300,000			300,000			10								300,000		
3/ 1/27	Second Scottish American Tr.										500,000			400,000			11½								400,000		
7/ 1/26	Third Scottish American Tr.										400,000			400,000			10¼								400,000		
2/ 5/27	Scottish Northern Tr.	200,000			300,000						500,000			200,000			15	300,000			4¼				500,000		
4/ 1/27	Second Scottish Northern	200,000			300,000						500,000			200,000			14	300,000			4¼				500,000		
12/31/26	Gov'ts Stock and Other Securities										925,000			462,500			10	462,500			5				925,000		
3/31/26	Anglo-American Deb.										1,050,333	6	8	400,000			11	600,000			4½				1,000,000		
1/15/27	Railway Deb. and Gen'l										1,000,200			500,100			8	500,100			4½				1,000,200		
1/15/27	Railway Share Tr. and Agency	600,000			600,000						1,200,000			600,000			8	600,000			5½				1,200,000		
1/20/27	Guardian Inv. Tr.										1,000,000			500,000			10½	500,000			4½				1,000,000		
1/31/27	U. S. Deb. Corp.										2,698,000			525,000			14	1,050,000			5½				1,575,000		
5/ 1/26	Inv. Tr. Corp.										3,000,000			1,000,000			20	1,500,000			4				2,500,000		
1/ 1/27	Metropolitan Tr.										1,500,000			125,000 Shares			6	125,000			4½				1,250,000		
														500,000 Stock			18½	500,000			4½						
1/31/27	Gen'l Investors and Trustees										1,000,000			360,000			14	360,000			4½				720,000		
1/31/27	Colonial Securities Tr.										1,000,000			197,816			6½	296,724			4	300			494,840		
3/31/26	Industrial and Gen'l Tr.										3,500,000			1,250,000			15	1,250,000			4½	500,000			3,000,000		
2/28/27	Gen'l and Commercial										1,200,000			300,000			11	300,000			5				600,000		
12/31/26	U. S. and Gen'l	420,300			630,000						1,050,300			420,300			12	630,000			5				1,050,300		
1/ 1/27	British Inv. Tr.										3,000,000			800,000			20	1,200,000			5	250,000			2,250,000		
9/30/26	Second Industrial Tr.	500,000			500,000						1,000,000			300,000			7	206,680			4½				506,680		
3/15/27	Edinburgh Inv. Tr.										1,500,000			480,000			12	360,000			4½				840,000		
9/30/26	Second Edinburgh Inv. Tr.										1,200,000			250,000			15	400,000			4½				650,000		
11/ 5/26	Third Edinburgh Inv. Tr.										750,000			200,000			12	400,000			4½				600,000		

12/31/26	Sterling													1,250,000				1,250,000			8									1,250,000		
1/31/27	Merchants													2,000,000				687,500			12	687,500			4	250,000				1,625,000		
9/30/26	London and Colonial	142,000			121,614			488,646						752,260				142,000			7½	121,614			5					263,614		
1/31/27	Alliance													2,500,000				750,000			25	700,000			4½	650,000			4	2,250,000		
																										150,000			5			
5/31/26	Globe Telegraph and Tr.	2,500,000			2,500,000									5,000,000				2,354,000			10	1,811,270			6					4,165,270		
12/31/26	Omnium													950,000				475,000			10	475,000			5					950,000		
4/30/27	Indian and Gen'l													500,000				100,600			5	149,400			5					250,000		
																					10											
1/31/27	Union Commercial													250,000				100,000			8	150,000			5					250,000		
3/31/26	Scottish Can. Mtge. Co.	200,000			300,000									500,000				100,000			7	64,430			5¼					164,430		
3/31/26	Scottish Mtge. and Tr.	500,000			500,000									1,000,000				500,000			9	500,000			5¼					1,000,000		
6/30/26	Edinburgh and Dundee	200,000			300,000									500,000				200,000			10	300,000			4½					500,000		
12/31/25	Deb. Corp., Ltd.	1,000,000			1,000,000									2,000,000				1,000,000			9	1,000,000			5					2,000,000		
1/31/25	Railway Inv. Co.													6,000,000				1,700,000			1 4/10	1,700,000			4					3,400,000		
1/31/27	Caledonian Tr. Co.													1,000,000				400,000			13	600,000			4½					1,000,000		
6/30/26	British Steamship Inv. Tr.													2,500,000				1,800,000			11	300,000			6					2,100,000		
10/31/26	London Scottish American													1,000,000				500,000			11	500,000			4½					1,000,000		
1/28/27	Gas, Water and Gen'l													1,500,000				224,000				336,000			4½					560,000		
4/30/25	British Empire													1,000,000				100,000			7	400,000			5	3,620			3	753,620		
																										250,000			5			
4/ 4/25	U. S. and South American													1,000,000				500,000			10	500,000			5					1,000,000		
11/30/26	Government and Gen'l													449,800				79,065			15	128,265			4					207,330		
12/31/25	Traction and Power Securities													1,829,176				256,230			13	427,050			5					683,280		
1/31/26	Mercantile Inv. and Gen'l													3,500,000				1,500,000			13	1,500,000			5					3,000,000		
1/31/27	Internationa. Inv. Tr.													2,000,000				400,000			8½	600,000			4½					1,000,000		
4/15/25	Consolidated Tr.													916,000				126,000			22	245,000			4	245,000			5½	616,000		
11/10/26	London Mar time Inv. Co.													2,000,000				500,000			8	500,000			5					1,000,000		
1/31/27	American Tr													500,000				200,000			12	300,000			5					500,000		
11/ 1/26	Scottish Inv Tr.													600,000				100,000			25	200,000			6	300,000			5	600,000		
10/ 1/26	Second Scottish Inv. Tr.													1,050,000				200,000			20	200,000			6	450,000			4½	850,000		
2/28/26	Tyre													1,650,000				100,000				550,000			10	1,000,000			7	1,650,000		
4/30/26	Bankers													3,000,000				900,000			9½	900,000			4½					1,800,000		
10/31/26	London and New York													720,000				70,000			10	220,000			5	220,000			5½	660,000		
																		150,000			10											
3/15/25	American Inv. and Gen'l	750,000			750,000									1,500,000				500,000			12	500,000			6					1,000,000		
1/10/26	Foreign and Colonial	1,249,991	15	0	1,249,991	15	0							2,499,983	10	0		1,106,755	10	0	7½	1,249,991	15	0	5					2,356,747	5	0
3/15/25	Foreign, American and Gen'l	1,000,000			1,000,000									2,000,000				750,000			7½	750,000			5					1,500,000		
3/31/27	British Shareholders													550,000				538,212			6									538,212		
12/31/25	Rubber Plantations													2,500,000				2,250,000			15									2,250,000		
9/15/26	Scottish and Dominions Tr.													500,000				71,372			6½	107,058			5					178,430		
																		34,551,450	10	0		32,063,582	15	0		4,268,920				70,883,953	5	0

TABLE I—*Continued*

Report for Year Ending:	Investment Trusts	Debenture				Debenture Terminable Fixed Deposit Receipts				Total Debentures			Reserve Funds			Loans (Liability) Payable			Trust Funds			Total Assets			Investments			Cash			Loans (Asset) Receivable		
		£	s.	d.	%	£	s.	d.	%	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
3/31/27	Scottish and Can. Gen'l	100,000			5	65,585				165,585			20,000			5,100						456,062	4	10	451,880	1	4	4,182	3	6			
11/30/26	Charter Tr. and Agency	88,870			4½					88,870			48,605	0	8	64,000						1,255,035	4	6	1,192,970	12	5	10,856	5	1	51,200		
11/ 1/26	Northern American Tr.	750,000			3½	728,868				1,478,868			870,000									4,012,139	4	11	3,981,869	11	9	4	12	1	13,750		
5/ 1/24	First Scottish American Tr.	250,000			4					250,000			114,000									714,382	1	4	710,192	1	6	6	5	5			
3/ 1/27	Second Scottish American Tr.	350,000			4					350,000			175,000			33,000						1,025,395	8	10	1,019,196	0	0	4	18	3			
7/ 1/26	Third Scottish American Tr.	350,000			4					350,000			145,000			40,750						1,003,145	5	0	995,647	1	2	19	15	3			
2/ 5/27	Scottish Northern Tr.	200,000				299,600				499,600			165,000			4,650						1,233,753	18	6	1,222,259	16	0	11,494	2	6			
4/ 1/27	Second Scottish Northern	189,415				310,485				499,900			80,000			980						1,132,475	11	9	1,127,532	19	5	4,942	12	4			
12/31/26	Gov'ts Stock and Other Securities	451,470			4	473,530			4½	925,000			100,000									2,094,151	11	1	2,054,004	6	11	19,323	0	9			
3/31/26	Anglo-American Deb.	800,000			4					800,000			185,000									2,067,693	17	0	2,001,431	1	1	15,643	18	2	20,000		
1/15/27	Railway Deb. and Gen'l	473,413			4	765,000			4½	1,238,413			225,000									2,551,421	19	0	2,499,254	1	11	37,984	14	4	3,913	17	7
1/15/27	Railway Share Tr. and Agency	254,426			4½	145,574			4½	400,000			125,000									1,806,794	12	2	1,749,394	19	8	32,063			2,793	10	9
1/20/27	Guardian Inv. Tr.	500,000			4	250,000			5	750,000						35,208	8	8				1,850,696	15	9	1,818,858	14	9				16,000		
1/31/27	U. S. Deb. Corp.	1,207,500			4					1,207,500			350,000									3,326,185	14	2	3,259,413	13	4	43,215	6	11	4,539	2	11
5/ 1/26	Inv. Tr. Corp.	2,000,000			4	500,000			5	2,500,000			1,140,000									6,409,075	8	10	6,274,533	15	3	123,470	2	2			
1/ 1/27	Metropolitan Tr.	1,250,000			4					1,250,000			550,000									3,178,431	1	0	3,119,475	16	11	47,920	6	4			
1/31/27	Gen'l Investors and Trustees	260,000			4					260,000			200,000									1,313,687	18	1	1,252,091	7	11	38,778	1	9	4,348	18	1
1/31/27	Colonial Securities Tr.												66,750									579,021	5	11	569,350	11	7	3,645	14	4	6,000		
3/31/26	Industrial and Gen'l Tr.	908,960			3½	1,591,040			4	2,500,000			1,000,000									6,810,107	7	10	6,668,358	10	2	41,369	13	5	37,030	13	1
2/28/27	Gen l and Commercial	300,000			4					300,000			110,000									1,073,324	17	0	1,065,674	4	10	7,650	12	2			
12/31/26	U. S. and Gen'l	700,000			4½	350,000			5	1,050,000			50,000									2,225,399	9	3	2,158 331	0	8	67,068	8	7			
1/ 1/27	British Inv. Tr.	1,633,550			4	214,024 366,450			5	2,214,024			1,500,000			4,342						6,163,021	5	7	6,019,813	9	10	44,909	3	2			
9/30/26	Second Industrial Tr.	132,250			4					132,250			15,000			55,000						742,808	15	7	734,140	4	2	8,213	11	5			
3/15/27	Edinburgh Inv. Tr.	400,000								400,000			100,000									1,536,622	15	6	1,536,550	0	4	72	15	2			
9/30/26	Second Edinburgh Inv. Tr.	450,000								450,000			100,000									1,282,442	16	5	1,282,442	16	5						
11/ 5/26	Third Edinburgh Inv. Tr.	210,000								210,000			50,000									958,341	16	7	947,339	12	1	5,207	3	6			

12/31/26	Sterling	A748,850			5	C810,652	19	0	5	2,607,892	19	0	150,000										4,176,040	19	9	4,115,718	10	6	11,579	11	6	24,691	0	2
		B1,048,390			5																																	
1/31/27	Merchants	1,330,000			4					1,330,000			260,000										3,414,926	1	5	3,372,179	12	5	37,395	19	3						
9/30/26	London and Colonial												40,731										324,896	16	3	317,759	14	9	2,387	12	2						
1/31/27	Alliance	1,300,000				2,213,535				3,513,535			1,765,000										8,009,445	7	11	7,968,519	17	6	3,478	19	4						
5/31/26	Globe Telegraph and Tr.												120,000										4,422,904			3,876,098	16	3	253,351	12	7						
12/31/26	Omnium	950,000			4½					950,000			50,000			15,000							2,037,202	4	4	2,021,850	8	1	6,727	10	6						
4/30/27	Indian and Gen'l	250,000			4½					250,000			100,000			11,364	13	4					628,747	18	2	614,712	19	7	5,913	0	1						
1/31/27	Union Commercial	250,000			5					250,000						39,616	2	0					566,049	17	1	550,018	19	8	7,185	14	11						
3/31/26	Scottish Can. Mtge. Co.	130,035								130,035			7,500			2,590							347,378	5	11	340,996	6	8									
3/31/26	Scottish Mtge. and Tr.	400,000			4½	518,104	0	2		918,104	0	2	96,822	2	0								2,134,287	17	9	2,116,321	10	1									
6/30/26	Edinburgh and Dundee	250,000			4½	239,025	14	6		489,025	14	6	28,000										1,071,333	12	4	1,068,785	3	7									
12/31/25	Deb. Corp., Ltd.	1,250,000			4	3,208			4	1,253,208			445,148	12	10								3,887,006	3	0	3,670,325	2	3	90,578	7	1	79,089	17	3			
1/31/25	Railway Inv. Co.																						3,441,355	16	9	3,400,000			716	17	7						
1/31/27	Caledonian Tr. Co.	900,000				66,000				966,000						114,801	8	3					2,150,132	6	2	2,149,661	1	2	136	3	8						
6/30/26	British Steamship Inv. Tr.	200,000			4½	439,622			5	639,622			240,001	14	2								3,380,609	9	3	3,311,343	6	5	63,716	6	10						
10/31/26	London Scottish American	632,197								632,197			324,866	19	6	21,000							2,068,730	10	9	2,054,699	17	7	13,990	10	2						
1/28/27	Gas, Water and Gen'l	100,000			4	300,000			5	650,000						136,500							1,366,053	15	0	1,289,038	14	7	2,504	15	5						
						250,000			5																													
4/30/25	British Empire																																					
4/ 4/25	U. S. and South American	410,408			4	400,000			4¼	810,408			65,000			10,000						405,453	2	5	1,431,164	19	9	1,022,669	8	2	358,977	6	2	45,264	11	4
11/30/26	Government and Gen'l	101,000			4					101,000			60,000			24,000							1,983,776	2	7	1,967,430	0	3	5,786	4	11	1,901	9	7			
12/31/25	Traction and Power Securities	365,036			4½					365,036			200,000			6,000							420,519	5	11	413,476	0	5	6,005	0	8	1,030					
1/31/26	Mercantile Inv. and Gen'l	1,500,000			4	1,500,000			4½	3,000,000			500,000										1,324,827	4	7	1,307,633	4	0	3,687	3	5						
1/31/27	International Inv. Tr.	750,000			4					750,000						14,000							6,849,201	11	11	6,707,792	19	8	60,249	2	11	5,000					
4/15/25	Consolidated Tr.	616,000			4½					616,000			118,372	4	2	21,000							1,800,754	16	3	1,788,006	5	6	3,604	14	11						
11/19/26	London Maritime Inv. Co.												220,000										1,435,189	5	2	1,305,335	18	8	3,139	16	0	120,587	6	5			
1/31/27	American Tr.	400,000			4½	93,743				493,743			113,489	0	6	12,000							1,251,582	0	3	1,228,581	11	9	23,000	8	6						
11/ 1/26	Scottish Inv. Tr.	600,000			4½					600,000			125,000										1,148,504	1	10	1,127,857	11	10	2,363	19	7						
10/ 1/26	Second Scottish Inv. Tr.	350,000			4	498,370				848,370			170,000										1,372,192	17	4	1,351,701	2	5	19,822	11	5						
2/28/26	Tyre	180,633	1	8						180,633	1	8											1,947,410	7	0	1,902,511	1	7	44,389	4	3						
4/30/26	Bankers	900,000			4					900,000			183,000										2,178,065	2	10	1,608,829	14	7	61	14	6						
10/31/26	London and New York	150,000			4					150,000			110,000			5,011	7	6					2,990,631	16	10	2,972,179	8	3	18,452	8	7						
3/15/25	American Inv. and Gen'l	500,000			4	500,000			4¼	1,000,000			351,029	6	6								960,075	2	9	948,584	8	7	3,978	2	2	4,750					
1/10/26	Foreign and Colonial												714,000										2,453,355	1	9	2,448,594	4	9	4,094	3	10						
3/15/25	Foreign, American and Gen'l	500,000			4					500,000			140,000										3,194,248	1	7	3,189,317	19	9	2,840	12	3						
3/31/27	British Shareholders												50,000										2,238,089	13	4	2,209,611	5	9	27,090	15	1						
12/31/25	Rubber Plantations												607,796	10	0								770,134	3	2	654,270	17	1	110,633	12	5						
9/15/26	Scottish and Dominions Tr.	27,245								27,245			26,810	13	9								3,362,261	11	6	3,036,764	18	10	57,669	18	8	89,274	16	1			
																							240,542	12	6	234,461	19	10	3,484	5	5						
		31,299,648	1	8		13,892,416	13	8		45,192,064	15	4																									

and sixteen over £4,000,000. The largest one is the Alliance Trust, Ltd., which amounts to £8,009,445 7s. 11d.

It is also interesting to compare the authorized capital of the above-mentioned corporations. An examination reveals that thirty-one companies are capitalized at less than £1,000,000; twenty-eight are capitalized between £1,000,000 and £3,000,000; while four are capitalized at more than £3,000,000.

From these comparisons it will be readily observed that there seems to be a concerted effort to keep the capitalization of British investment trusts below a maximum of approximately £5,000,000, or $25,000,000. This does not bulk very large in comparison with the deposits of, say, fifteen prominent banks of New York City. It is evident that there is some general purpose connected with the narrow limitation of investment-trust capitalization. The intention is so to restrict the assets handled that a few men can direct the investment, reinvestment, sale, and resale of the entire list. The effort to attain expert management is evidently sincere. It is an important factor in such management that the number of securities managed should not be excessive.

Furthermore, the managers of British trusts appreciate the fact that conditions change from year to year. It may be highly desirable to alter the rules and regulations governing the management of securities at comparatively brief intervals of time. This is rendered much easier of accomplishment if, instead of increasing the capitalization of existing trusts, new trusts are formed with comparative frequency. We therefore find the First, Second, and Third Scottish American Trust Companies, Ltd., all with exactly the same directorates, and all with different capitalizations, different reserves and different debenture issues. That is merely symptomatic of a general condition. Experience has shown that investment forms of this character are best managed in units not exceeding £5,000,000 and oftentimes very much less than that amount.

Purposes.—The purposes of an investment trust are always set forth in the memorandum of association. In general, they correspond to the purposes of an American corporation as described in the corporate charter. Under the Companies Acts of 1862 and 1908, there appears to be no such tendency to restrict the purpose of incorporation as exists under the laws of numerous states in this country. The enumerated purposes of British trusts are broad and inclusive. Of course, they are most inclusive in the case of financing and promoting companies where the object in view is not merely the sale and resale

of investment securities, but the operation of specific plants and properties. In a general way, the purposes of a pure investment trust in Great Britain are quite adequately set forth in the Memorandum of Association of the Metropolitan Trust Company, Ltd., which is quoted here in full.[5]

MEMORANDUM OF ASSOCIATION

OF

THE METROPOLITAN TRUST COMPANY, LIMITED

The objects for which the Company is established are:

(1) To acquire the undertaking of The New Imperial Investment Company, Limited, and to acquire and undertake all or any of its assets and liabilities and any shares in or securities of such Company, and with a view thereto to enter into and carry into effect, with or without modification, the agreement referred to in Clause 5 of the Articles of Association of this Company.

(2) To invest the moneys of the Company in or otherwise acquire and hold any of the investments following (that is to say), the shares, stock, bonds, obligations, debentures, debenture stock, scrip and securities of any country, trust or corporation, formed under British, Foreign, Indian or Colonial law, whether general or special, or of any government, state, dominion, sovereign, province, municipality, or ruling or public authority, British, Foreign, Indian or Colonial, or for the payment of the principal or interest, of which or any part of which the credit, or any property or revenue of any such government, state, dominion, sovereign, province, municipality, or ruling or public authority is pledged, charged, or made liable.

(3) To borrow or raise money for all or any of the purposes of the Company, either by the issue or sale of any bonds, obligations, mortgages, debentures, or debenture stock of the Company, whether perpetual or otherwise, or in any other manner.

(4) To act as and to carry on the business of a Financial Company.

(5) To issue on commission, subscribe for, take, buy, acquire, hold, sell, exchange, lend, hire and deal in stocks, shares, mortgages, bonds, obligations, debentures, concessions, coupons, warrants, securities, and mercantile and negotiable and other instruments of any kind, and real and personal property of any kind.

(6) To make advances on any stocks, shares, mortgages, bonds, obligations, debentures, concessions, securities, and mercantile and negotiable or other instruments, and on real or personal property of any kind.

[5] Several other characteristic sets of investment-trust purposes are set forth at length in Appendix A, p. 324, et seq.

(7) To give any guarantee for and undertake and carry on the business of guaranteeing the payment of money or the performance of any undertaking or insurance against any kind of risk in relation to shares, stocks, mortgages, loans, investments and securities, whether made, effected, or acquired through the Company's agency or otherwise.

(8) To pledge, mortgage, or charge all or any part of the property or undertaking of the Company, including its uncalled capital or unpaid calls, as security for any loans to or obligations of the Company, and to receive money on deposit or otherwise at interest.

(9) To negotiate loans and to act as agents for loans or the payment, transmission and collection of money, and for the management of property, and to transact all kinds of public and private agency business.

(10) To carry on business as merchants, bankers or capitalists, and to undertake and carry on and execute all kinds of financial trading and other operations and businesses.

(11) To act as trustees for the holders of or in relation to any debentures, bonds, or debenture stock, issued or to be issued by any government, corporation, company or authority, or in relation to any shares or stock of any company or corporation formed or incorporated under English, Foreign, Indian or Colonial law, or for any other purpose, whether under any settlement, will or other instrument or otherwise, and to undertake and execute any trust or trusteeship whatsoever.

(12) To create any special fund or trust of any particular investment or investments, and to issue against the same certificates representing an interest in such trust, either as preferred and deferred certificates, or as certificates having different rights, priorities or conditions, or otherwise.

(13) To purchase from liquidators, judicial factors, trustees and other persons the assets or estates of insolvent companies or persons, and for the purpose of realizing such estates and assets to carry on and conduct any business comprised in such estates or assets.

(14) To take, make, execute, enter into, commence, carry on, prosecute and defend all steps, contracts, agreements, negotiations, legal and other proceedings, compromises, arrangements and schemes, and to do all other acts, matters and things which shall at any time appear conducive to or expedient for the protection of the Company as holders of or interested in any such investments and securities as aforesaid.

(15) To promote, form, register, organize, float and underwrite or place the capital of any company, syndicate, trust or private partnership in any part of the world, whether under English law or the law of any Colonial or Foreign State, or of India.

(16) To enter into any arrangements with any other persons or companies for partnership, sharing profits, co-operation, joint adventure, reciprocal concession, or otherwise, which may seem expedient.

(17) To apply for any Act of Parliament for effecting any modifi-

cation of the Company's constitution, or extending its objects, or for any purpose whatsoever which may seem expedient, and to oppose and resist any proposed legislation, or any application, or proceedings which may seem to the Company directly or indirectly adverse to any of its interests.

(18) To pay the expenses of and preliminary and incidental to the formation, establishment, and registration of the Company, and any underwriting, brokerage, commission, legal, and other expenses which may be deemed expedient for placing all or any of the Company's shares, stock, debentures, debenture stock, bonds, or other securities.

(19) To pay moneys by way of interest to Members in respect of moneys paid by them for calls or other payments on account of shares before such calls are actually due.

(20) To do all acts necessary for carrying on in India or any foreign country or Colony, any business or transaction or act of the Company, necessary or expedient to be there carried on or carried out or done, or which may in any other respect, and for any other purpose, seem necessary or convenient for the transaction of any business of the Company.

(21) To sell, lease, or otherwise dispose of the Company's undertaking, or any part thereof, or any property or interest in property from time to time belonging to the Company, for such consideration as the Company may think fit, and in particular for shares, stock, obligations, debentures, debenture stock, scrip or securities of any company.

(22) To divide any shares, stock, bonds, obligations, debenture stock, scrip or securities belonging to the Company among the Members in specie.

(23) To do all or any of the matters herein mentioned, either alone or in conjunction with any other company, corporation or person, and either on its own behalf, or for a commission.

(24) To make, accept, indorse and execute promissory notes, bills of exchange, debentures to bearer, and other negotiable or transferable instruments.

(25) To do all such other things as are incidental or conducive to the attainment of the above objects.

A perusal of the foregoing objects of incorporation would seem to disclose the fact that great latitude is given to each investment trust to invest and reinvest its capital in any securities, British or foreign, which in the discretion of its Board of Directors may seem to be reasonably safe and desirable, and, in connection with this principal object, to borrow and raise necessary money for the purposes of the company and to pledge the corporate property in order to obtain the same. It may be noted, however, that this principal purpose is usually directly related to a definite limitation upon the borrowing

capacity of the investment trust. This is well shown in the prospectus of The Scottish Northern Investment Trust, Ltd.[6]

Original Certificates of Participation.—It has already been suggested that, under the Companies Acts, British corporations go through a double process in the matter of security issues, and that the first process is concerned with the allotment of some part of the original authorized share capital. The theory seems to be that each corporation is first divided into shares, and that these shares may be subsequently subdivided into corporate stock—preferred or ordinary as the case may be. One reason for an original issue of shares with subsequent retirement and stock division is that, as many British companies issue their original shares in assessable form, it is considered highly desirable to have all such shares fully paid before issuing the corporate stock.

In investment trusts, we must remember that the ownership of the trust itself rests entirely with the holders of the share capital, and subsequently with the same holders when a division of the share capital has been made and they have received their respective portions of the preferred and common stock. It is these holders of the share capital, and later of the corporate stock, who receive the profits of the undertaking. It should be distinctly understood that they are not the general public, so to speak. They are not the group of investors who, desiring reasonably safe securities possessing the elements of diversity and expert management, place their savings in the investment-trust enterprise. Rather, the holders of the share capital are the promoters of the investment trust who bore the original burden of organization, incorporation, and early struggles, and thereafter reap not merely a standard return upon their invested funds, but, in addition thereto, an incalculable increment directly related to the success of the venture.

We note from Table I, in connection with sixty-three representative investment trusts, that preferred stock represents 31.30 per cent of the average capitalization; common or ordinary stock, 29.77 per cent; debentures, 26.96 per cent; and terminable debenture and fixed deposit receipts, 11.97 per cent.

The foregoing figures show that preferred stock maintains a slightly higher ratio toward the capitalization of a trust than common stock. This is probably due to the fact that the preferred stock receives a fixed return which, while relatively high, does not repre-

[6] See Appendix A, page 338.

sent the possibility of profit attached to common or ordinary stock during periods of prosperity. Preferred stock, however, is usually cumulative, non-participating, and entitled to priority if a company is wound up.

Method of Splitting Up.—The original share capital of an investment trust is usually split up, within a reasonable time after incorporation, into preferred and ordinary shares. The proportions which these classes of stock bear to the original share capital vary widely; but it may be stated as a general rule that the ratio is frequently that of 60 per cent preferred stock and 40 per cent ordinary stock. The method of securing this realignment of evidences of ownership is to retire the original certificates of participation and issue in their stead stock certificates of different classes, amounting, as a whole, to the value of the original certificates of participation for which they are substituted. There is also the question of assessability to be considered, since many certificates of participation are issued upon an assessable basis with the proviso that they may not be converted into preferred and ordinary stock until all assessments upon them have been fully paid. This provision is a beneficial one, not only to the individual investors concerned, but to the public at large.

Resulting Forms of Security.—1. *Preferred Stock.*—Preferred stock in connection with British investment trusts is really the bond issue possessed by the owners of the trust. Its return is reasonably certain and therefore fixed at a comparatively low yield, the general average being between 4 and 5 per cent, with the greater number of companies paying 4½ per cent. The theory upon which this class of stock is issued is undoubtedly that each owner of the trust naturally desires that a certain part of his investment be safeguarded by a certain interest yield, and, in return for the safety accorded him by the fixed nature of the contract governing that part of his money, he should be willing to receive a lower return than that which may come to him in connection with the more hazardous yet more potentially profitable contract governing the issue to him of his ordinary shares.

2. *Ordinary or Common Stock.*—This form of participating ownership represents in England, as it certainly does in America, the right to potential profits of uncertain and oftentimes speculative character. For this reason it is confined within narrower limits than the average preferred stock issue, just as in a jug of milk the amount of cream is small compared with the milk itself. It is interesting to note from Table I that, while few of the dividends on preference stock exceed 5 per cent, the average dividend upon the ordinary stock

of sixty-three investment trusts is 11.29 per cent, and only twenty-three companies out of sixty-three have paid dividends of less than 10 per cent during 1926–27 on their ordinary stock issues. This would seem to indicate clearly that ordinary stock is the vehicle through which the real profit of British investment-trust operation passes to the owners of the trusts.

3. *Debenture Stock and Debentures.*—We have previously seen that the members of the general public who may desire to invest in the securities of British investment trusts are necessarily restricted to the purchase of debenture stocks or debenture securities of some character. In proof of this last statement, the Annual Report of the Directors of the Metropolitan Trust Company, Ltd., for the year ending January 1, 1925, reads as follows:

The Directors submit herewith their Report and Statement of Accounts for the year ended 1st January, 1925.

From this it will be seen that the gross Revenue amounted to £169,284 13s. 11d. (as compared with £138,492 6s. 0d. for the previous year). The amount standing at the credit of Appropriation Account, including the sum of £71,394 19s. 7d. brought forward from last year, and after providing for all charges, including dividend on the Preferred Stock for the year, Income Tax, etc., was £147,978 15s. 6d. Out of this Interim Dividends of 7 per cent on the Ordinary Stock absorbing £21,700, and of 1s. 7½d. per Share on the New Shares (being at the rate of 6 per cent per annum), absorbing, less tax, £1,259 6s. 8d. were paid on the 31st July. The Board have transferred the sum of £33,637 6s. 2d. to the Reserve Account, and they now recommend the payment of Final Dividends of 4s. 9.6d. on the New Shares (less tax) being at the prescribed rate of 6 per cent per annum and of £10 10s. per cent on the Ordinary Stock (making 17½ per cent, less Income Tax, for the year). These Dividends will absorb £36,270, leaving £55,112 2s. 8d. to be carried forward, subject to Corporation Profits Tax.

In January last the unissued balance of the Company's Share Capital was offered to the existing Stockholders at the price of £16 for the £10 Shares. The issue was fully subscribed, and a Resolution converting the Shares into equal amounts of Preferred and Ordinary Stock will be submitted to the forthcoming Meeting. Following upon the subscription of the New Shares the Directors, in accordance with their powers under the Articles of Association, issued 200,000 four per cent Debenture Stock. The premium realized upon the New Shares, after deducting therefrom the discount and expenses of issue of the Debenture Stock, has been added to the Reserve Account which, with the sum above mentioned transferred from Revenue Account, now amounts to £550,000.

After conversion of the New Shares into Stock, the Capital of the

Company will consist of £500,000 four and one-half per cent Cumulative Preferred Stock, £500,000 Ordinary Stock, and £1,000,000 four per cent Debenture Stock.

The Valuation of the Investments, based as far as possible upon the prices current at the date of the balance sheet, show an appreciation of approximately £250,000 over the Book Cost of £2,624,651. More than 97 per cent of the Investments have a published quotation.

It will be observed from the foregoing report that the Company's unissued share capital, when placed upon the market, was rapidly absorbed at a premium, and it seems that this is the usual experience of investment trusts of established reputation. Hence, the only investment-trust security available to the average investor is the debenture, which is a frank borrowing by the investment trust, the loans giving a fair interest yield to the investor, coupled with diversification of security and expert management, the resulting profits being absorbed by the share ownership of the trust itself.

Increase or Reduction of Capital.—Little need be said on these points in addition to what has already been stated in connection with the British Companies Acts; but it may be observed that under ordinary circumstances prosperous conditions lead a trust to increase its share capital, while losses and contraction of business are correspondingly likely to cause a decrease.

METHOD OF CONTROL

Trustees and Directors.—Except in the case of debenture trustees, who resemble in function the corporate trustee of the American corporation mortgage, there is little actual difference between the powers and duties of investment trustees and investment-trust directors. There is, however, a distinct difference between directors of British trusts and directors of American corporations; this difference is that directors of British trusts are adequately paid for the work they do. In the United States, for some inexplicable reason, it has been the custom for years to take a large portion of the time and thought of prominent men in connection with the management of numerous corporations, and, in return for such appropriation of time and ability, to pay an honorarium of $5 to $25 per meeting, relying upon the fact that the average director has a probable interest in the corporation managed, sufficiently large to induce him to lend his best efforts toward its supervision and operation without the lure of additional compensation. Experience, however, seems to show that in many

instances there has not existed that feeling of direct responsibility which follows direct compensation and which is a necessary condition of efficient labor in connection with the management of a company's affairs. It is thought, therefore, that the British system of properly remunerating directors for the work they perform is a distinct step in advance of the American practice.

In addition to the matter of compensation, however, many British trusts require that a director, in order to be qualified to administer the affairs of an investment trust, shall hold a substantial share ownership in the company. In many cases such ownership is set at £1000 and upwards. This qualification, added to adequate remuneration, would seem to a considerable extent to account for the expert management which has so greatly distinguished British investment trusts. Furthermore, perfect freedom has been allowed directors so far as their personal contracts with the corporation are concerned, provided that no secret profits were taken and no misrepresentation made by the directors to the shareholders or the public at large.

The powers and duties of the directors of a typical British trust are set forth in the following extract from Memorandum and Articles of Association of the Metropolitan Trust Company, Ltd.

Directors

84. The qualification of a Director shall be the holding of shares of the Company of the nominal amount of £1000. A first Director may act before acquiring his qualification, but shall in any case acquire the same within one month from his appointment, and unless he shall do so he shall be deemed to have agreed to take the said shares from the Company, and the same shall be forthwith allotted to him accordingly.

85. The remuneration of the Directors shall be at the rate of £1200 per annum, with such further remuneration as shall from time to time be fixed by the Company in General Meeting. The amount available for Directors' remuneration in any year shall be divided among the Directors as they shall determine.

86. The continuing Directors may act, notwithstanding any vacancy in their body.

87. The office of Director shall be vacated—

(*a*) If he accepts or holds any other office under the Company except that of Managing Director or Manager;
(*b*) If he becomes bankrupt or suspends payment, or compounds with his creditors;
(*c*) If he is found lunatic, or becomes of unsound mind;

(*d*) If he cease to hold the required amount of shares or stock to qualify him for office;
(*e*) If he absent himself from the Meetings of the Directors during a period of six calendar months without special leave of absence from the Directors;
(*f*) If by notice in writing to the Company he resign his office.

88. No director shall be disqualified by his office from contracting with the Company, either as vender, purchaser, or otherwise, nor shall any such contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested be avoided, nor shall any Director so contracting, or being so interested, be liable to account to the Company for any profit realized by any such contract or arrangement by reason of such Director holding that office, or of the fiduciary relation thereby established, but it is declared that the nature of his interest must be disclosed by him at the Meeting of the Directors at which the contract or arrangement is determined on, if his interest then exists, or in any other case at the first Meeting of the Directors after the acquisition of his interest, and that no Director shall, as a Director, vote in respect of any contract or arrangement in which he is so interested, as aforesaid, and if he do so vote, his vote shall not be counted; but this declaration shall not apply to the agreement mentioned in Clause 3 hereof nor to any contract or arrangement in which a Director is only interested by reason of his being a member of some other company, which is a party to or interested in such contract or arrangement, or to any matters arising thereout, and the Company in General Meeting may at any time relax or suspend this proviso to any extent.

Powers of Directors

110. The management of the business of the Company shall be vested in the Directors, who, in addition to the powers and authorities by these presents expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done by the Company and are not hereby or by statute directed or required to be exercised or done by the Company in General Meeting, but subject, nevertheless, to the provisions of the statutes and of these presents and to any regulations from time to time made by the Company in General Meeting, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

111. Without prejudice to the general powers conferred by the last preceding clause and the other powers conferred by these presents, it is hereby expressly declared that the Directors shall have the following powers, that is to say, power:

(1) To pay all the expenses of and preliminary and inci-

dental to the formation, establishment and registration of the Company as they think fit.

(2) To appoint and at their discretion remove or suspend such managers, secretaries, officers, clerks, agents, and servants for permanent, temporary or special services as they may from time to time think fit and to determine their duties and powers, and fix their salaries or emoluments, and to require security in such instances and to such amount as they think fit.

(3) To accept from any Member on such terms and conditions as shall be agreed a surrender of his shares or stock, or any part thereof.

(4) To appoint any person or persons to accept and hold in trust for the Company any property belonging to the Company or in which it is interested, or for any other purposes, and to execute and do all such deeds and things as may be requisite in relation to any such trust.

(5) To institute, conduct, defend, compound or abandon any legal proceedings by or against the Company, or its officers or otherwise, concerning the affairs of the Company, and also to compound and allow time for payment or satisfaction of any debts due, and of any claims or demands by or against the Company.

(6) To determine who shall be entitled to sign on the Company's behalf bills, notes, receipts, acceptances, indorsements, checks, releases, contracts, and documents on behalf of the Company.

(7) To execute in the name and on behalf of the Company in favor of any Director or other person who may incur or be about to incur any personal liability for the benefit of the Company such mortgages of the Company's property (present and future) as they think fit, and any such mortgage may contain a power of sale, and such other powers, covenants and provisions as shall be agreed on.

(8) To give to any officer or other person employed by the Company a commission on the profits of any particular business or transaction, or a share in the general profits of the Company, and such commission or share of profits shall be treated as part of the working expenses of the Company.

(9) Before recommending any dividend to set aside out of the profits of the Company such sums as they think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing, improving, and maintaining any of the property of the Company, and for such other purposes as the Directors shall in their absolute discretion think conducive to the interests of the

Company, and to invest the several sums so set aside upon such investments (other than shares of the Company) as they may think fit, and from time to time deal with and vary such investments and dispose of all or any part thereof for the benefit of the Company, and to divide the reserve fund into such special funds as they think fit, and with full power to employ the assets constituting the reserve fund in the business of the Company, and that without being bound to keep the same separate from the other assets.

(10) To enter into all such negotiations and contracts, and rescind and vary all such contracts and execute and do all such acts and things in the name and on behalf of the Company as they may consider expedient for or in relation to any of the matters aforesaid, or otherwise for the purposes of the Company.

Managers and Secretaries.—One of the secrets of the success of British investment trusts has been the concentration of expert management in the hands of a few men; and this is true not only as to a group of investment trusts, but in many instances to a particular company. It is easy to comprehend that this investment form really grew out of the efforts of solicitors and chartered accountants to supervise and direct the investment activities of their clients; hence, it is not surprising that a few thoroughly informed men should to-day direct the investment activities of a comparatively large number of investment trusts. Thus, for instance, the Edinburgh Investment Trust, the Second Edinburgh Investment Trust, and the Third Edinburgh Investment Trust, with a joint issued capital of £1,996,680, are all supervised and directed by one manager, and from the same office.

In many instances, a permanent secretary is in turn supervised by a managing director, who receives a higher compensation than his associates; and these two men together frequently carry on the routine business of the trust.

Let us now consider for a moment what this routine business normally is. Obviously, it necessitates a basic knowledge of world finance and acquaintance with the past history, dividend records, etc., of corporations of many varying types located in many different parts of the globe. It connotes an unusual amount of ability in the line of analytical thought as applied to the many investment propositions certain to be brought to the attention of the secretary or manager of the investment trust. If the investment trust's financial man is merely able to obtain a conservative yield upon the money entrusted to his company's keeping, he may be able to pay the rate of return

upon the debentures issued by his trust. He will certainly be unable, however, to accomplish the two other definite and highly desirable ends of trust management: namely, the gradual accumulation of a reserve fund to cover periods of depression and amortize possible losses over a period of years; and the accumulation of a surplus through operation, which will represent profit and will be distributable in the form of dividends to the owners of the trust, who are the holders of its preferred and ordinary stock.

Many observers note with some astonishment the extreme freedom of action allowed under the British Articles of Association to managing directors, secretaries, and trustees. In America, especially in connection with those companies issuing so-called bankers' shares, this free sale and resale of trust property has been restricted and even denied, and such restrictions and denials have been loudly bragged about as factors of safety; but under the British system it was realized at an early period that, in order to obtain a profitable result, great freedom must be allowed in the matter of change of investment so that profit might be obtained through the acquisition of securities at low prices and their sale at the proper date at prices upon which a considerable profit would be realized to the trust ownership. The British system is the correct one if there is complete and absolute confidence in the integrity and ability of the trust management. If such confidence does not exist, then not only is there need for restrictions upon the power of the managing trust agents to sell and resell securities, but there is a basic problem of a serious nature as to whether men of whose ability or integrity there is the slightest doubt should be given any power to deal to any extent with the money of other people.

Employees.—Beyond managing directors and secretaries, there are few employees needed in connection with the operation of investment trusts, other than clerks, stenographers, and auditors; and the low ratio of management expense in connection with the volume of business performed reveals the fact that British trusts are operated conservatively and on an extremely reasonable basis. Under the terms of the Companies Acts, periodical audits are required; but the compensation of auditors is relatively small compared with the fees paid in the United States for similar services. Thus the average annual fee for auditors would seem to range from £50 to £200; while legal expenses, which appear on numerous balance sheets, are ridiculously low compared with similar expenses incurred by many American corporations. Thus, quoting at random from the annual reports of three

investment trusts, during the year 1926 the British Investment Trust, Ltd., paid £25 9s. 7d. for legal expenses, and £300 for auditors' fees; the Investment Trust Corporation, Ltd., paid £109 15s. 6d. for legal expenses, and £350 for auditors' fees; and the Northern American Trust Company, Ltd., paid £87 16s. 2d. for legal expenses, and £240 for auditors' fees. Experience shows that the above-quoted fees are representative of the expenses of the average British investment trust in these particulars.

CHAPTER V

OPERATION AND ACCOUNTING METHODS

DIFFERENCE IN OPERATION OF INVESTMENT COMPANIES AND INVESTING AND PROMOTING COMPANIES

The principal difference in operation between the two classes of British trust companies has already been pointed out with fair accuracy. It is only necessary at this point to emphasize the fact that the pure investment-trust management devotes itself solely to acquiring, holding, and disposing of securities in a profitable manner for the benefit of its share ownership and its debenture creditors; while the management of the financing and promoting company devotes its efforts toward the acquisition of securities, often in a restricted field, also for the purpose of profit, but coupled with a coördinate purpose of controlling and managing subsidiary corporations. In some instances the financing and promoting company joins to the basic purpose of profitable trading in securities the further end of actually managing and operating various enterprises in association with investment in securities.

BORROWING POWERS: USE OF DEBENTURES

An examination of Table I will disclose the fact that the sixty-three representative British trusts therein included have borrowed a negligible amount by means of ordinary bank loans, etc. Out of the sixty-three trusts tabulated, only twenty-three have made any such loans; and of these twenty-three, only four have borrowed in excess of £50,000. It is clear from the examination which has already been made of the character of business performed by the British trusts that there is little need for bank loans in transacting the routine business of any trust. It is true that from time to time it may be advisable to request a temporary accommodation in order to take advantage of some peculiarly favorable market situation, but under ordinary circumstances no such necessity is likely to exist. Hence,

we find that while British trusts are large borrowers, comparatively speaking, their borrowings are really confined to the contributions of the general public, which the trusts obtain in order to accomplish their main purpose of diversified investment under expert management for the eventual purpose of profit to the share ownership.

Even in this regard there is, as has already been noted, a distinct and unvarying limitation, based upon long custom and reflected in almost every trust agreement, upon the borrowing capacity of each and every trust with relation to its capitalization. The ordinary rule is that at no time should the issued debentures of a trust company exceed in amount the outstanding capital of the trust. A further perusal of Table I will disclose the fact that this rule has been well kept by the trust companies whose financial affairs are therein disclosed. For instance, the British Investment Trust, with preferred stock of £1,450,000 and ordinary stock of £800,000, had debenture stock outstanding on January 1, 1927, amounting to £2,214,024. When we consider that upon this financial set-up the company was paying an annual dividend of 5 per cent on the preferred, 20 per cent on the common, and 4 per cent on the debentures, we can readily see how well this particular trust illustrates the general theory of the average British company, in that the public lender who receives 4 per cent on his debentures is getting the lowest return because he is obtaining diversification of investment and expert management for the use of his money. The preferred stockholder is obtaining only a slightly higher yield because he has the consideration of priority of lien and fair certainty of return in addition to his actual interest rate; while the owners of the ordinary shares, who do not possess priority of lien, who are not in the creditor's position occupied by the debenture holders, and who have no guaranteed security or floating charge such as they possess, nevertheless, do have a relatively unlimited possibility of speculative profit, uncertain but in the case of any prosperous company, an alluring fact. It is this possibility which from time immemorial, has made the common or ordinary shares of both British and American corporations desirable forms of investment to those investors who are eager for return and less insistent upon the possession of financial safeguards.

In the same connection it may be noted that the Mercantile Investment and General Trust Company, Ltd., with an authorized capital of £3,500,000, has issued and outstanding £1,500,000 of preference stock with a cumulative dividend of 5 per cent; £1,500,000 of ordinary stock paying 13 per cent; and two issues of debenture stock, one of

TABLE II

British Investment Trusts—Revenue Account

Report for Year Ending	Name of Company	Interest and Dividends			Transfer Fees			Secretaryships Trusteeships			Income from Deposits			Underwriting Commissions			Refund of Corp. Profits Tax			Miscellaneous			Total Income		
		£	s.	d.	£	s.	d	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
3/31/27	Scottish and Can. Gen'l	29,626	0	11	17	15	0																29,643	15	11
11/30/26	Charter Tr. and Agency	59,294	8	1	94	17	6	990	3	0													60,379	8	7
11/ 1/26	Northern American Tr.	254,039	16	8	87	5	0																254,127	1	8
5/ 1/24	First Scottish American Tr.	56,610	16	8	18	7	6																56,629	4	2
3/ 1/27	Second Scottish American Tr.	85,714	17	5	25	2	6																85,739	19	11
7/ 1/26	Third Scottish American Tr.	80,784	6	11	24	10	0																80,808	16	11
2/ 5/27	Scottish Northern Tr.	90,935	1	2	40	13	6																90,975	14	8
4/ 1/27	Second Scottish Northern	82,557	19	0	30	12	6																82,588	11	6
12/31/26	Gov'ts Stock and Other Securities	114,412	15	0																			116,322	15	0
3/31/26	Anglo-American Deb.	128,741	0	10	2,009	17	10																130,750	18	8
1/15/27	Railway Deb. and Gen'l	142,445	15	0				500															142,445	15	0
1/15/27	Railway Share Tr. and Agency	107,727	9	4	62	16	0																108,227	9	4
1/20/27	Guardian Inv. Tr.	97,044	14	1																			97,107	10	1
1/31/27	U. S. Deb. Corp.	206,884	19	11	91	6	0																206,976	5	11
5/ 1/26	Inv. Tr. Corp.	395,942	1	9	142	15	0																396,084	16	9
1/ 1/27	Metropolitan Tr.	201,460	7	8	52	5	0																201,512	12	8
1/31/27	Gen'l Investors and Trustees	103,797	19	8													3,484	4	6				107,282	4	2
1/31/27	Colonial Securities Tr.	23,693	14	9	14	0	0							60									23,767	14	9
3/31/26	Industrial and Gen l Tr.	416,888	3	11	182	19	0																417,071	2	11
2/28/27	Gen'l and Commercial	56,347	11	5	29	7	6				36	10	0										56,413	9	9
12/31/26	U. S. and Gen'l	130,294	13	3	25	17	6																130,320	10	9
1/ 1/27	British Inv. Tr.	382,356	0	2																			382,356	0	2
9/30/26	Second Industrial Tr.	45,281	4	1	14	14	6																45,295	18	7
3/15/27	Edinburgh Inv. Tr.	95,513	1	0																			95,513	1	0
9/30/26	Second Edinburgh Inv. Tr.	80,315	2	6																			80,315	2	6
11/ 5/26	Third Edinburgh Inv. Tr.	51,254	6	4																			51,254	6	4
12/31/26	Sterling	222,040	6	7	35	15	6																222,076	2	1

1/31/27	Merchants	200,005	12	11	73	11	0	2,463	9	7																		202,542	13	6
9/30/26	London and Colonial	18,479	18	8	24	18	6																					18,504	17	2
1/31/27	Alliance	487,553	10	10	120																							487,673	10	10
5/31/26	Globe Telegraph and Tr.	338,254	9	3	146	8	6				8,409	0	5															346,809	18	2
12/31/26	Omnium	116,020	5	10														1,883	14	0								117,903	19	10
4/30/27	Indian and Gen'l	34,258	5	3	20	14	0	1,985						255														36,518	19	3
1/31/27	Union Commercial	39,219	0	8	17	17	6	1,172	8	9																		40,409	6	11
3/31/26	Scottish Can. Mtge. Co.	23,653	8	10	1	0	0																			555	14	0	24,210	2	10
3/31/26	Scottish Mtge. and Tr.	107,666	13	3	50	0	0																					107,716	13	3
6/30/26	Edinburgh and Dundee	59,755	14	8																								59,755	14	8
12/31/25	Deb. Corp., Ltd.	234,547	18	3	91	3	0	4,787	2	11																		239,426	4	2
1/31/25	Railway Inv. Co.	93,691	16	0				128	1	8	9	6	1															93,829	3	9
1/31/27	Caledonian Tr. Co.	149,696	11	2	38	0	0																					149,734	11	2
6/30/26	British Steamship Inv. Tr.	191,725	14	5	83	10	0				484	1	11	920	2	6	1,038	18	5									194,252	7	3
10/31/26	London Scottish American	129,701	7	8	40	10	0																					129,741	17	8
1/28/27	Gas, Water and Gen'l.	43,163			62	3	0				170	8	8															43,395	11	8
4/30/25	British Empire	53,173	7	3				16,617	19	5																		69,791	6	8
4/ 4/25	U. S. and South American	104,692	9	11	48	12	6																					104,741	2	5
11/30/26	Government and Gen'l.	26,989	8	7	10	0	0							515			966	18	2									28,481	6	9
12/31/25	Traction and Power Securities	68,526	0	5	25	2	6																					68,551	2	11
1/31/26	Mercantile Inv. and Gen'l.	378,904	1	0	137	15	0	100																				379,141	16	0
1/31/27	International Inv. Tr.	95,669	5	4	44	3	6							681	7	6												96,394	16	4
4/15/25	Consolidated Tr.	72,363	19	9	31	2	6	1,001	12	3							1,917											75,313	14	6
11/10/26	London Maritime Inv. Co.	65,543	13	4	12	7	6																					65,556	0	10
1/31/27	American Tr.	77,867	9	0	18	17	6																					77,886	6	6
11/ 1/26	Scottish Inv. Tr.	101,959	7	3	59	10	0																					102,018	17	3
10/ 1/26	Second Scottish Inv. Tr.	138,463	13	6	65	11	0																					138,529	4	6
2/28/26	Tyre	150,584	4	2																								150,584	4	2
4/30/26	Bankers	161,622	19	10	66	19	6				390	9	3															162,080	8	7
10/31/26	London and New York	54,137	3	10	21	7	6																					54,158	11	4
3/15/25	American Inv. and Gen'l.	119,091	18	11	43	2	6																					119,135	1	5
1/10/26	Foreign and Colonial	139,494	17	7	77	5	0																					139,572	2	7
3/15/25	Foreign American and Gen'l.	112,249	15	2	51	0	0																					112,300	15	2
3/31/27	British Shareholders	55 222	7	9	56 (Net)	3	6																					55,278	11	3
																					Estates Produce Account									
12/31/25	Rubber Plantations	204,674	12	4																	154,857	15	3					359,532	7	7
9/15/26	Scottish and Dominions Tr.	12,896	12	4	126	5	0																					13,022	17	4

TABLE II—*Continued*

Report for Year Ending	Name of Company	Interest			Taxes, Brit. Income			Taxes, Corp. Profit			Taxes, American			Stock Issues Discount on and Expenses			Management Expenses			Auditors			Legal			Rent, Office, Etc.			Miscellaneous			Total Management Expenses			Total Expenditure		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
3/31/27	Scottish and Can. Gen'l	7,062	15	0	3,187	4	3							105	11	9	1,911												334	13	6	2,245	13	6	12,601	4	6
11/30/26	Charter Tr. and Agency	3,199	6	4	9,327	6	8										5,085	0	4	294	15	6							1,705	11	3	7,085	7	1	19,612	0	1
11/ 1/26	Northern American Tr.	46,949	9	10	50,406	5	3				453	14	8	2,715	7	7	8,337			240			87	16	2				117	8	7	8,782	4	9	109,307	2	1
5/ 1/24	First Scottish American Tr.	8,485	4	5	13,168	16	11	1,075	13	9	521	9	10				2,540			75			61	10	1				68	10	3	2,745	0	4	25,996	5	3
3/ 1/27	Second Scottish American Tr.	13,923	10	2	16,622	8	11				303	3	3				3,490			100			37	18	6				48	2	5	3,676	0	11	34,525	3	3
7/ 1/26	Third Scottish American Tr.	14,045	11	5	15,703	12	4				279	12	10				3,490			100			43	1	8				48	8	11	3,681	10	7	33,710	7	2
2/ 5/27	Scottish Northern Tr.	18,729	14	0				19,101	13	9							3,932	6	3													3,932	6	3	41,763	14	0
4/ 1/27	Second Scottish Northern	18,856	18	8				16,885	5	8							4,030	0	8													4,030	0	8	39,772	5	0
12/31/26	Gov'ts Stock and Other Securities	33,672	11	4	87	16	0										4,290			150												6,085	18	11	44,286	6	3
3/31/26	Anglo-American Deb.	29,000															3,000												6,122	17	5	9,122	17	5	38,122	17	5
1/15/27	Railway Deb. and Gen'l	53,361	10	4													3,600												7,721	11	9	11,321	11	9	64,683	2	1
1/15/27	Railway Share Tr. and Agency	18,000															3,000												4,230			7,230			25,230	0	0
1/20/27	Guardian Inv. Tr.	22,865	12	3													5,439	6	3	150			462	5	6				2,158	4	7	8,209	16	4	31,075	8	7
1/31/27	U. S. Deb. Corp.	48,300			2,486	14	10													250									12,204	9	7	12,454	9	7	63,241	4	5
5/ 1/26	Inv. Tr. Corp.	98,318	4	7	44,145	18	5							424	1	11	15,484			350			109	15	6							15,943	15	6	159,795	5	11
1/ 1/27	Metropolitan Tr.	44,838	8	9	27,126	3	10										9,349	14	4	210			331	1	6				200			10,090	15	10	82,474	8	10
1/31/27	Gen l Investors and Trustees	7,840			2,500												11,205	14	8	210						8718	7	5				20,134	2	1	30,474	2	1
1/31/27	Colonial Securities Tr.																2,240	2	11													2,240	2	11	2,240	2	11
3/31/26	Industrial and Gen'l Tr.	76,319	15	8	4,000												13,850			630						1057	7	5	18,329	8	5	33,866	15	10	115,131	7	8
2/28/27	Gen'l and Commercial	9,600															6,373	4	0	157	10	0				5	5	0				6,535	19	0	16 135	19	0
12/31/26	U. S. and Gen'l	33,395	16	8	10,522	3	9										6,525	1	1	105									85	15	6	6,715	16	7	50,738	17	0
1/ 1/27	British Inv. Tr.	67,399	17	5	75,271	17	9							627	14	5	15,230			300						25	9	7				15,555	9	7	158,854	19	2
9/30/26	Second Industrial Tr.	4,243	11	11													4,283	19	1	210						336	16	7	29	10	8	4,860	6	4	9,103	18	3
3/15/27	Edinburgh Inv. Tr.	12,800															4,600															4,600			17,400		
9/30/26	Second Edinburgh Inv. Tr.	14,400															5,500			105												5,605			20,005		
11/ 5/26	Third Edinburgh Inv. Tr.	7,120															3,100			105												3,205			10,325		

| | | |

£1,500,000 at 4 per cent and the other of £1,500,000 at 4¾ per cent. Also, the North American Trust Company, Ltd., as of November 1, 1926, with an authorized capital of £2,000,000, has preference stock of £900,000 at 4 per cent; ordinary stock of £600,000 at 18 per cent; and debenture stock of £750,000 at 3½ per cent, with an additional issue of debenture of £728,868. It is believed that the financial set-up of these representative companies indicates pretty clearly the general use of debentures by British investment trusts as explained above.

EXPENSES OF OPERATION, SALARIES, OVERHEAD, ETC.

One of the principal advantages claimed for the investment trust is that through its operation many investments can be analyzed, purchased, and disposed of, for the benefit of hundreds of people, through the exertions of a few men and at moderate cost.

Investigation of the revenue accounts of the same sixty-three investment trusts dealt with in Table I substantiates the claim as to economical management above referred to. It will be interesting at this point to examine the revenue accounts of the sixty-three trusts above mentioned. These appear in Table II.

Examination of the foregoing table will show how small the item of management expenses is in each case, in proportion to the interest and dividends received by the various trusts. In only eight instances does the expense of management exceed £10,000 a year, and this covers trustees' and directors' salaries, and compensation for managing secretaries, stenographers, and clerical assistants. It should also be noted that the charges of auditors are relatively low, the highest being that made in connection with work done for the Industrial and General Trust, Ltd., which is £630. When one thinks of the fees received in this country by certified public accountants, such charges as appear in this table seem ridiculously low. It should also be noted that, while there is probably not much litigation connected with the operation of an investment trust, nevertheless, there is and must be a certain amount of legal advice needed from time to time, and the foregoing table reveals the fact that approximately half of the trusts examined made no entry whatever for legal expense and nearly all the others showed trifling sums. It would seem clear from the foregoing table, therefore, that British investment trusts are actually operated on a very economical basis. Undoubtedly, so far as the public is concerned, this constitutes one of the strongest arguments in their favor.

TABLE III

BRITISH INVESTMENT TRUSTS—RATIOS

Name of Company	Ratio of Management Expense to Income	Name of Company	Ratio of Management Expense to Income
Scottish and Can. Gen'l	7.43	Indian and Gen'l	12.97
Charter Tr. and Agency	11.73	Union Commercial	7.31
Northern American Tr.	3.45	Scottish Can. Mtge. Co.	12.88
First Scottish American Tr.	4.85	Scottish Mtge. and Tr.	7.67
Second Scottish American Tr.	4.29	Edinburgh and Dundee	9.55
Third Scottish American Tr.	4.55	Deb. Corp., Ltd.	6.29
Scottish Northern Tr.	4.32	Railway Inv. Co.	1.83
Second Scottish Northern	4.88	Caledonian Tr. Co.	4.53
Gov'ts Stock and Other Securities	5.23	British Steamship Inv. Tr.	7.56
Anglo-American Deb.	6.98	London Scottish American	7.94
Railway Deb. and Gen'l	7.95	Gas, Water and Gen'l	9.54
Railway Share Tr. and Agency	6.68	British Empire	30.75
Guardian Inv. Tr.	8.45	U. S. and South American	5.49
U. S. Deb. Corp.	6.01	Government and Gen'l	10.95
Inv. Tr. Corp.	4.02	Traction and Power Securities	4.62
Metropolitan Tr.	5.00	Mercantile Inv. and Gen'l	4.30
Gen'l Investors and Trustees	18.76	International Inv. Tr.	9.26
Colonial Securities Tr.	9.41	Consolidated Tr.	11.13
Industrial and Gen'l Tr.	8.12	London Maritime Inv. Co.	6.24
Gen'l and Commercial	11.59	American Tr.	5.74
U. S. and Gen'l	5.15	Scottish Inv. Tr.	8.24
British Inv. Tr.	4.07	Second Scottish Inv. Tr.	7.24
Second Industrial Tr.	10.73	Tyre	3.14
Edinburgh Inv. Tr.	4.81	Bankers	6.03
Second Edinburgh Inv. Tr.	6.98	London and New York	6.33
Third Edinburgh Inv. Tr.	6.25	American Inv. and Gen'l	5.13
Sterling	6.55	Foreign and Colonial	6.69
Merchants	6.18	Foreign, American and Gen'l	5.69
London and Colonial	9.37	British Shareholders	Net figures used
Alliance	4.31		
Globe Telegraph and Tr.	2.79	Rubber Plantations	3.72
Omnium	8.06	Scottish and Dominions Tr.	10.70

METHODS OF ACCOUNTING

Characteristic Features and Methods of Handling Reserves.—There appears to be a fairly well standardized system of accounting for investment trusts. This system is only varied, under ordinary circumstances, when some special feature, such as a promotive interest in certain specific property, which one occasionally finds in connection with so-called promoting companies, makes it desirable to alter the usual financial set-up.

As an illustration of the ordinary accounting methods of an average British investment trust, let us take the Balance Sheet and Revenue Accounts of the Metropolitan Trust Company, Ltd., for the year ending January 1, 1925, and consider them for purposes of illustration.

THE METROPOLITAN TRUST COMPANY, LTD.

BALANCE SHEET, 1st JANUARY, 1925

Dr.	£	s.	d.	£	s.	d.
Capital Authorized and Issued:						
4½ per cent Cumulative Preferred Stock	400,000	0	0			
Ordinary Stock	400,000	0	0			
New Shares, viz.:						
20,000 Shares of £10 each fully paid	200,000	0	0			
				1,000,000	0	0
Four per cent Debenture				1,000,000	0	0
Reserve Account				550,000	0	0
Debenture Stock Interest Accrued, less Income Tax				7,750	0	0
Preferred Stock Dividend Accrued, less Income Tax				6,975	0	0
Sundry Credit Balances				16,904	1	4
Outstanding Dividends				85	7	6
Staff Pension Fund				9,398	17	3
Revenue Account, Balance Available				87,662	2	8
NOTE—Uncalled liability on Investments, £20,275. Instalments not yet due on new Investments, £30,787.						
				£2,678,775	8	9

Cr.	£	s.	d.
Investments, at or under cost, less amount of Contingent Account	2,624,651	1	10
Sundry Debit Balances	862	8	5
Investments on account of Pension Fund, at cost	9,398	13	7
Cash at Bankers, at Call and in Course of Transmission	43,863	4	11
	£2,678,775	8	9

REVENUE ACCOUNT "A" FOR THE YEAR ENDED 1st JANUARY, 1925

	£	s.	d.
Management Expenses, viz.:			
Rent, Salaries, Directors' Fees, and Office Expenses	8,202	17	9
Trustees' Fees	200	0	0
Interest on Debenture Stock	38,229	10	6
Legal Expenses	9	6	10
Auditors' Fees	183	15	0
Discount on New Shares	1,912	5	1
Dividend on Preferred Stock at 4½ per cent	18,000	0	0
Balance carried down	8,226	2	8
	£74,963	17	10

	£	s.	d.
Revenue (before deduction of Income Tax) which has not borne Corporation Profits Tax	74,926	12	10
Transfer Fees	37	5	0
	£74,963	17	10

THE METROPOLITAN TRUST COMPANY, LTD.

REVENUE ACCOUNT "B" FOR THE YEAR ENDED 1st JANUARY, 1925

	£	s.	d.		£	s.	d.
Income Tax and Corporation Profits Tax	25,963	2	10	Balance brought down	8,226	2	8
Balance carried to Appropriation Account	76,583	15	11	Revenue (before deduction of Income Tax) in respect of which the Company is not liable for Corporation Profits Tax	94,320	16	1
	£102,546	18	9		£102,546	18	9

APPROPRIATION OF NET REVENUE

				£	s.	d.		£	s.	d.
To Interim Dividend on the New Shares of 1s. 7½d. per share (being at the rate of 6 per cent per annum) less Income Tax				1,259	6	8	By Balance Brought down	76,583	15	11
To Interim Dividend on the Ordinary Stock of £7 per cent, less Income Tax, paid 31st July, 1924				21,700	0	0	By Balance from Last Year	71,394	19	7
To Transfer to Reserve Account				33,637	6	2				
To Final Dividend on the New Shares of 4s. 9.6d. per share (being at the rate of 6 per cent per annum) less Income Tax				3,720	0	0				
To Proposed Dividend on the Ordinary Stock of £10 10s. per cent, less Income Tax, making a total distribution of £17 10s. per cent, for the year ended 1st January, 1925	32,550	0	0							
To Balance to be carried forward, subject to Corporation Profits Tax, 1925	55,112	2	8	87,662	2	8				
				£147,978	15	6		£147,978	15	6

(Signed on behalf of the Board) ROBERT FLEMING, H. A. VERNET } Directors

To the Shareholders of the Metropolitan Trust Company, Limited.

We have examined the above Balance Sheet, dated 1st January, 1925, and have obtained all the information and explanations we have required. A Valuation of the Investments has been made by the Directors, as stated in their Report annexed, and shows an appreciation compared with the figure at which the Investments stand in the Balance Sheet. With this observation, the Balance Sheet is, in our opinion, properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given us, and as shown by the Books of the Company.

DELOITTE, PLENDER, GRIFFITHS & CO.,
Chartered Accountants,
Auditors.

5 London Wall Buildings, London, E.C. 2
16 January, 1925.

An examination of the accounts discloses the fact that the first object is, very naturally, to determine the available balance for the Revenue Account, as thus only can profits be ascertained and distributed. This balance is stated in the Balance Sheet as £87,662 2s. 8d., but, of course, is arrived at through the compilation of Revenue Accounts A and B and the final tabulation, which shows the appropriation of Net Revenue. The difference between the Revenue Accounts would seem to be entirely due to the necessity of distinguishing between that part of the revenue of the trust which is liable to the British corporation profits tax, and that part of the revenue which is not so liable. It will also be noted that in the balance sheet on the credit side the first item reads as follows: "Investments, at or under cost, less amount of Contingent Account—£2,624,651 1s. 10d." This is the usual and conservative method of accounting for the cost of investments. While not entirely scientific, as the question of appreciation of investments is disregarded, it is nevertheless undoubtedly the safest way of handling the situation.

It will also be noted that, under the table giving Appropriation of Net Revenue, the payment of interim dividends is shown. This is the usual custom with British trusts, although in America such payments would be called semi-annual dividends. Nevertheless, in England they are rather different because there the first, or interim, dividend payment is ordinarily on a conservative basis, and the second, or final, payment is, especially in the case of ordinary shares and where prosperous conditions have obtained during the last six months of the year, a far more generous one. Thus, in this instance, the first, or interim, dividend on the ordinary stock was £7 per cent, while the proposed second, or final, dividend on the ordinary stock was £10 10s. per cent, less income tax, making a total distribution of £17 10s. per cent for the year ending January 1, 1925.

Some British trusts emulate a certain type among American corporations in the facility and free-handedness with which they distribute profits. With this in mind, let us examine the Revenue Account and Balance Sheet of the General and Commercial Investment Trust, Ltd., for 1927. (See pages 70 and 71.)

Even a casual perusal of the above accounts will reveal a policy which, to say the least, is not conservative. With a net revenue for the year of £40,277 10s. 9d., £18,000 was applied to interim dividends on the deferred stock and the annual dividend on the preferred stock. Of the remaining £21,392 16s. 11d., £20,400 was applied to a dividend at the rate of 15 per cent per annum on the deferred stock in addi-

tion to a bonus of 1 per cent for the year, while the amount allocated to reserve was £884 13s. 10d.

It would appear, then, that the main objects of British trusts, as disclosed by their accounts, are, first, the payment of fixed charges and proper dividends from the money at hand and, after that, the accumulation of adequate reserves, which is also essential. In the foregoing accounts of the Metropolitan Trust Company, Ltd., it will be seen that under Appropriation of Net Revenue we find the sum of £33,637 6s. 2d. to be transferred to the Reserve Account. It is but fair to say that British investment trusts devote a considerable part of operating profits, and discounts obtained from the sale of new securities, to the accumulation of reserve funds; although oftentimes at least a part of the amount to be used for such a purpose is not directly transferred to the Reserve Account, but is employed to write down losses in securities previously suffered, as is shown, for instance, in the Capital Reserve Account contained in the report for the year ending April 30, 1924, of the Indian and General Investment Trust, Ltd., viz.:

CAPITAL RESERVE ACCOUNT

Dr.	£ s. d.		£ s. d.	Cr.
To Amount written off Investments	10,494 16 6	By Balance as per last Account	50,000 0 0	
To Balance of Capital Reserve	50,000 0 0	By Revenue Account, transferred as addition to Reserves	5,556 19 5	
		By Net Surplus on Sales of Investments	4,937 17–1	10,494 16 6
	£60,494 16 6			£60,494 16 6

and the following statement contained in the yearly report for the year ending January 31, 1925, of the Merchants Trust, Ltd., viz.:

	£	s.	d.
The Net Revenue, after charging Interest on Debenture Stock, Management Expenses, Dividend on the Preference Stock for the year, Income Tax, etc., amounts to 76,031–6–4 to which has to be added £57,421 2s. 0d. brought forward from last year, making to be dealt with	133,452	8	4
An Interim Dividend of 2 per cent has already been paid on the £687,500 Ordinary Stock (less Income Tax)	10,656	5	0

The Directors propose to appropriate the Balance as follows:

To payment of Final Dividend on the £687,500 Ordinary Stock of 9 per cent, making 11 per cent for the year (less Income Tax)	47,953	2	6
To writing down Securities	10,000	0	0
To carry forward, subject to Corporation Profits Tax, 1925 (if any)	64,843	0	10
	£133,452	8	4

THE GENERAL AND COMMERCIAL INVESTMENT TRUST, LTD.

APPROPRIATION OF NET REVENUE

Dr.

	£	s.	d.	£	s.	d.
To Interim Dividends at the rate of 5 per cent per annum on Preferred Stock, and at the rate of 5 per cent per annum on Deferred Stock, paid Sept. 30th, 1926	15,000	0	0			
Less Income Tax	3,000	0	0			
				12,000	0	0
To Dividend at the rate of 5 per cent per annum on Preferred Stock, for six months to date	7,500	0	0			
Less Income Tax	1,500	0	0			
				6,000	0	0
To Amount transferred to Reserve Fund				884	13	10
To Balance down				21,392	16	11
				£40,277	10	9
To Proposed Dividend at the rate of 15 per cent per annum on Deferred Stock for six months to date	22,500	0	0			
Less Income Tax	4,500	0	0			
				18,000	0	0
To Proposed Bonus of 1 per cent for the year on Deferred Stock	3,000	0	0			
Less Income Tax	600	0	0			
				2,400	0	0
To Balance carried forward to credit of Deferred Stockholders				24,228	15	11
				£44,628	15	11

Cr.

	£	s.	d.
By Net Revenue for the year as above	40,277	10	9
	£40,277	10	9
By Balance down	21,392	16	11
By Balance from last Account to credit of Deferred Stockholders	23,235	19	0
	£44,628	15	11

THE GENERAL AND COMMERCIAL INVESTMENT TRUST, LTD.

BALANCE SHEET FEBRUARY 28th, 1927

Dr.

	£	s.	d.	£	s.	d.
To Nominal Capital:						
120,000 Shares of £10 each.....				1,200,000	0	0
60,000 of which have been issued and converted into:						
5 per cent Preferred Stock...	300,000	0	0			
Deferred Stock...	300,000	0	0			
				600,000	0	0
To Four per cent Perpetual Debenture Stock issued.....				300,000	0	0
To Reserve Fund.....				110,000	0	0
To Interest on Debenture Stock, accrued to February 28th, 1927, less Income Tax.....				2,800	0	0
To Sundry Outstanding Accounts...				9,695	16	8
To Unpaid Dividends, etc.....				200	4	5
To Revenue Account.....	40,277	10	9			
Less Interim Dividends paid Sept. 30, 1926...£12,000 0 0						
Transfer to Reserve Fund.... 884 13 10						
	12,884	13	10			
	27,392	16	11			
Add Balance from last Appropriation of Net Revenue Account to credit of Deferred Stockholders.	23,235	19	0			
				50,628	15	11
There is a liability of £19,111 13s. 4d. in respect of Shares, etc. held by the Trust.....				£1,073,324	17	0

Cr.

	£	s.	d.
By Investments at cost price, less amounts written off to date.....	1,065,674	4	10
By Cash at Bankers.....	7,650	12	2
	£1,073,324	17	0

The balance sheet of the Mercantile Investment and General Trust Company, Ltd., for the year ending January 31, 1924, also shows very clearly the way in which securities are written off from revenue and at the same time a considerable sum is transferred to the Reserve Account (p. 73).

The writing off of investments from funds that would otherwise be added to reserve accounts is called by Dr. Leland Rex Robinson, in his able treatise, "Foreign Credit Facilities in the United Kingdom," the accumulation of an invisible reserve. Dr. Robinson thus deals with the question:[1]

By means of these profits, plus any deductions from net income for the purpose, the visible, and "invisible" or "inner" reserves of the investment trusts are built up. If funds are appropriated to the "visible" reserve, the "reserve" item on the debit side of the balance sheet is increased by the proper amount, and the cost of securities in which the appropriate funds are invested is added to the "investments at cost or under" item on the credit side. If they are added to the "invisible reserve," the balance sheet shows no changes. In this case, technically, the funds have been used to "write down the cost of investments." That is, although the company's holdings have been strengthened to that extent, the investments remain at the same figure in the balance sheet. This figure really represents the net cost to the company of all the securities it holds and, unlike the figures of a financing company's account, has no relation whatever to market value.

The result of using capital profits "to write down cost of investments" is that more generally than not a successful investment trust's annual valuation of its holdings will show a large margin above the balance sheet figure. It is this margin which constitutes its "inner reserve." Stock exchange values may tumble until this inner reserve is more than used up but no note need be taken of it in the balance sheet. In such a case the visible reserve is generally a further element of safety. If values are buoyant, the trust may transfer from its "invisible" to its "visible" reserve—or in other words, add to the reserve figure on the debit side, and consequently mark up its "investments" total. Further appreciation in its securities may lead to the distribution of bonus stock, and the corresponding reduction of reserve and addition to "issued capital." It is in this way that profits on realizations are occasionally "distributed." As the dividend rate is adjusted to the greater volume of outstanding stock, the recipient of the bonus shares gains little advantage, except from the higher selling price of his larger holding, unless a more liberal policy in distributing income is adopted at the same time.

[1] Foreign Credit Facilities in the United Kingdom, Leland Rex Robinson, Ph.D., Columbia University Press, 1923, p. 163.

THE MERCANTILE INVESTMENT AND GENERAL TRUST COMPANY, LTD.

Balance Sheet, 31st January, 1924

Liabilities

	£	s.	d.	£	s.	d.
Capital Authorized:						
200,000 Shares of £10 each } 1,500,000 Shares of £ 1 each }				3,500,000	0	0
Capital Issued:						
200,000 Shares of £10 each } 1,000,000 Shares of £ 1 each } converted into:						
5 per cent Cumulative Preference Stock	1,500,000	0	0			
Ordinary Stock	1,500,000	0	0			
				3,000,000	0	0
4 per cent Perpetual Debenture Stock				1,500,000	0	0
4½ per cent Perpetual Second Debenture Stock				1,500,000	0	0
Reserve Account				400,000	0	0
Interest accrued on Debenture Stocks, less Income tax				23,734	7	6
Dividend accrued on 5 per cent Preference Stock, less Income tax				28,906	5	0
Ascertained Liability in respect of Calls payable (per contra)				53,840	0	0
Security purchased for future settlement				60	18	0
Sundry Outstanding Accounts				30,703	17	9
Unclaimed Dividends and Interest				1,733	11	3
Revenue Amount available, subject to Corporation Profits Tax (if any)	252,953	12	3			
Less Interim Dividend on Ordinary Stock paid 1st August, 1923 (£ s. d. 46,249 16 1)						
Less Written off Securities from Revenue	25,000	0	0			
Less Transfer to Reserve Account	25,000	0	0			
	96,249	16	1			
				156,703	16	2
				£6,695,682	15	8

Assets

	£	s.	d.
Investments at or under cost	6,470,161	10	1
Loans	6,750	0	0
Security sold for future settlement	649	18	0
Outstanding Account	6,284	5	6
Calls on Investments made but not yet due (per contra)	53,840	0	0
Cash at Bankers and in Hand	157,996	13	1
	£6,695,682	15	8

There is a contingent uncalled liability in respect of certain Shares held by the Trust, as set out in detail in the List of Investments published herewith.

In connection with the relation of visible reserves to total liabilities, it will be interesting to refer to Table IV which shows the ratio of the reserve funds of sixty-three trusts to their respective total liabilities.

TABLE IV

BRITISH INVESTMENT TRUSTS—RATIOS

Name of Company	Ratio of Reserve Funds to Assets	Name of Company	Ratio of Reserve Funds to Assets
Scottish and Can. Gen'l	4.40	Indian and Gen'l	16.28
Charter Tr. and Agency	4.08	Union Commercial	
Northern American Tr.	21.84	Scottish Can. Mtge. Co.	2.02
First Scottish American Tr.	16.06	Scottish Mtge. and Tr.	4.57
Second Scottish American Tr.	16.19	Edinburgh and Dundee	2.62
Third Scottish American Tr.	14.56	Deb. Corp., Ltd.	12.13
Scottish Northern Tr.	13.50	Railway Inv. Co.	
Second Scottish Northern	7.09	Caledonian Tr. Co.	
Gov'ts Stock and Other Securities	4.87	British Steamship Inv. Tr.	7.25
Anglo-American Deb.	9.24	London Scottish American	15.81
Railway Deb. and Gen'l	9.00	Gas, Water and Gen'l	
Railway Share Tr. and Agency	7.14	British Empire	
Guardian Inv. Tr.		U. S. and South American	3.30
U. S. Deb. Corp.	10.74	Government and Gen'l	14.53
Inv. Tr. Corp.	18.17	Traction and Power Securities	15.30
Metropolitan Tr.	17.63	Mercantile Inv. and Gen'l	7.46
Gen'l Investors and Trustees	15.97	International Inv. Tr.	
Colonial Securities Tr.	11.73	Consolidated Tr.	9.07
Industrial and Gen'l Tr.	14.99	London Maritime Inv. Co.	17.92
Gen'l and Commercial	10.33	American Tr.	10.07
U. S. and Gen'l	2.31	Scottish Inv. Tr.	9.25
British Inv. Tr.	24.91	Second Scottish Inv. Tr.	8.90
Second Industrial Tr.	2.05	Tyre	
Edinburgh Inv. Tr.	6.51	Bankers	6.15
Second Edinburgh Inv. Tr.	7.80	London and New York	11.60
Third Edinburgh Inv. Tr.	5.28	American Inv. and Gen'l	14.26
Sterling	3.64	Foreign and Colonial	22.39
Merchants	7.71	Foreign, American and Gen'l	6.34
London and Colonial	12.85	British Shareholders	7.64
Alliance	22.15	Rubber Plantations	20.01
Globe Telegraph and Tr.	3.09	Scottish and Dominions Tr.	11.46
Omnium	2.47		

It occasionally happens that a reserve fund becomes considerably larger than the necessities of the situation require. In this event the fund is sometimes capitalized for the benefit of the ordinary or common shareholders. This situation occurred in connection with the Annual Report of the London and Colonial Investment Corporation, Ltd., for the year ending September 30, 1924, when the following recommendation was acted upon by the shareholders:

The Directors further recommend that £20,386, part of the Reserve Fund, be capitalized and divided among the Deferred stockholders. They will submit to an Extraordinary General Meeting of the Company, notice of which accompanies, the necessary Resolutions, and when the same become effective they will allot and issue to the Deferred Stockholders one new share of £1 (credited as fully paid) for each complete Six Pounds (£6) of Deferred Stock held on 6th November, 1924.

The new shares when issued will rank for dividend as from the

1st October, 1924, and will as soon as possible be converted into Deferred Stock, ranking thereafter in all respects with the existing Deferred Stock.

Sometimes the reserve fund and the contingent fund of a trust are separate affairs. In this case they, of course, appear separately on the company's accounts. When they are identical, the usual method of accounting is to speak of the fund as a "Reserve."

Methods of Handling Taxation Problems.—Tax matters have naturally become far more complicated since the Great War than they ever were previously. Each trust is now compelled to provide for payment of the British income tax and the corporation profits tax, while in many instances, perhaps in most, an American income tax must also be paid. Illustrative of this is the Revenue Account for the year ending November 1, 1924, of the Northern American Trust Company, Ltd., viz.:

NORTH AMERICAN TRUST COMPANY, LTD.
REVENUE ACCOUNT
FOR THE YEAR ENDED ON 1ST NOVEMBER, 1924

Dr.	£	s.	d.	£	s.	d.	Cr.	£	s.	d.
Interest paid (less Income Tax) on Debenture Stock to 1st November, 1924	20,345	15	10				Interest and Dividends from Investments	168,374	14	9
Interest paid and accrued (less Income Tax) on Terminable Debentures to 1st November, 1924	9,604	1	5				Transfer Fees	61	15	0
				29,949	17	3				
Interest on Staff Pension Fund				124	16	0				
Expenses of Management				6,325	0	0				
Auditors' Fee				180	0	0				
Law Expenses				86	11	8				
Terminable Debenture Expenses				476	9	3				
Stamp Duties, Bank Remitting Charges, and Cables				94	17	4				
British Income Tax				34,392	18	3				
Corporation Profits Tax for 1923				3,787	11	4				
American Income Tax				624	2	10				
Balance carried down				92,394	5	10				
				£168,436	9	9		£168,436	9	9

It should also be explained, in connection with the British income tax, that the rule as to deduction of capital losses is different in England and in Scotland. In Scotland, the American method is followed: additions to capital are taxed as income, while capital losses may be deducted. In England, on the other hand, though investment trusts are allowed to deduct profit or realization on their taxable income, they are also compelled to pay income tax on their entire revenue, inclusive of such profits, and are not permitted to deduct capital losses.

It is believed that the system followed in Scotland is more likely to be advantageous to the various trusts.

With regard to the American income tax, little need be said except that its imposition amounts to double taxation, which, as between two sovereign nations, it is not possible to prevent. Nevertheless, the fact that such double taxation has existed since the War has undoubtedly played an important part in influencing British trusts to withdraw their capital from American securities. This condition will probably continue to exist not only until the amount of the American tax is radically reduced, but also until the method of its administration is made the subject of reform. As evidenced by recent reports, with the return to many corporations of corporation profits tax previously collected, and with the elimination of the excessive taxes of the after-war period, the revenue accounts are showing the benefit of lower expenditure for taxes.

CHAPTER VI

METHODS OF INVESTMENT

DISTRIBUTION OF INVESTMENTS

In order to study satisfactorily the investment policies of a selected number of British trusts, it has been thought well to construct the following table from the data obtained from twenty-eight representative investment trust companies.

It is regrettable that no uniform system, with regard to investment distribution, has been adopted by the various trust companies examined. Some trusts account for their investments in lump sums, and others adopt a plan of percentage statement. The foregoing table has been compiled in accord with both systems. It is also regrettable that some trusts give little detailed information on this subject; nevertheless, the data collected are sufficient to reveal some interesting facts.

Number of Investments.—The first topic of interest in this connection is the number of investments held by the various trusts. Examination of the table reveals the fact that the average number of investments is approximately 425. It is true that the Industrial and General Trust Company, Ltd., has 900 separate investments, but this is an unusually large trust with investments of £6,668,358 10s. 2d. showing on its balance sheet. At the other end of the line we find the Globe Telegraph Trust Company, Ltd., with only seventeen different investments and a relatively large capitalization of £4,165,270. In the latter case, the paucity of investments is undoubtedly accounted for by the fact that this particular trust company occupies a field definitely limited to one particular type of investment security and therefore there is not the same effort on the part of its managers to secure a wide distribution as would be the case with another type of investment trust.

On the whole, it is quite clear that the general principle of obtaining reasonable safety by means of distribution of risk, in accordance with the law of averages, has been well attained by the trust companies included under Table V.

TABLE V

British Investment Trusts—Distribution of Investments

	United States and Gen'l Tr. Corp., Ltd.	British Inv. Tr., Ltd.	Second Industrial Tr., Ltd.	Industrial and Gen'l Tr., Ltd.	Edinburgh Inv. Tr.	Second Edinburgh Inv. Tr.	Third Edinburgh Inv. Tr.
Number of Investments	312	453	267	900	450	428	381
	%	£ s. d.	%	%			
Bonds, Debentures and Debenture Stocks	54.9	2,359,879 12 5	42.82	37.01			
Preferred Shares and Stocks	17.9		16.34	18.93			
Ordinary Shares and Stocks	27.2	3,659,933 17 5	40.84	44.06			
Mortgages					Average in each £3410 =	Average in each £3000 =	Average in each £2486
Total	100	6,019,813 9 10	100.00	100.00			
Government Loans	13.8	262,946 0 1	8.53	9.03			
Railway Companies	19.5		20.61	22.76			
Electric Railways and Public Utilities	18.0	2,106,344 17 11	7.92	3.18			
Iron, Coal and Steel	7.9						
Commercial and Industrial	30.2		55.40	51.61			
Banks, Financial and Investment	10.6		6.40	10.89			
Miscellaneous							
Total	100.0	3,650,522 11 10	1.14	2.53			
		6,019,813 9 10	100.00	100.00			
Canada							
Great Britain	40.9		30.70	37.74			
British Colonies and Dependencies	8.9		14.46	14.70			
United States	7.6	831,854 3 4	7.06	8.71			
Argentina	12.9		16.93	11.67			
Brazil	4.5						
Other South American Countries	9.2		17.23	14.77			
Europe	8.7		7.79	4.82			
Asia and Africa			3.99	4.64			
Mexico and Central America			1.84	2.95			
Cuba							
Other Countries	7.3	5,187,959 6 6					
Total	100.0	6,019,813 9 10	100.00	100.00			

TABLE V—*Continued*

	Sterling Tr., Ltd.	Merchants Tr., Ltd.	London and Colonial	Globe Telegraph and Tr.	Charter Tr. and Agency, Ltd.	Northern American Tr. Co., Ltd.	First Scottish American Tr. Co., Ltd.
Number of Investments	.....	435	.....	17	.....	502	335
	%	%	%		£ s. d.	£ s. d.	£ s. d.
Bonds, Debentures and Debenture Stocks	.....	.....	67.00	.....	658,626 11 9	2,813,369 13 10	625,517 2 0
Preferred Shares and Stocks	.....	.....	26.77	.....	526,541 14 6	927,509 12 7	182,726 1 4
Ordinary Shares and Stocks	.....	.....	6.23	.....	....	602,441 10 11	112,624 2 7
Mortgages							
Total	.....	.....	100.00	.....	1,185,168 6 3	4,343,320 17 4	920,867 5 11
Government Loans	.....	.....	.....	.....	392,305 14 4	201,233 14 2	36,037 16 3
Railway Companies							
Electric Railways and Public Utilities	.....	.....	.....	.....	....	....	....
Iron, Coal and Steel							
Commercial and Industrial	.....	.....	.....	.....	....	....	....
Banks, Financial and Investment	.....	.....	.....	.....	....	....	....
Miscellaneous	.....	.....	.....	.....	792,862 11 11	4,142,087 3 2	884,829 9 8
Total					1,185,168 6 3	4,343,320 17 4	920,867 5 11
					%		
Canada	.....	.....	.....	.....	....	....	....
Great Britain	47.53	26.26	.....	.....	....	....	....
British Colonies and Dependencies	8.76	10.77	.....	.....	33	....	....
United States	3.68	22.02	.....	.....	7	....	....
Argentina	.....	.....	.....	.....	....	....	....
Brazil	.....	.....	.....	.....	....	....	....
Other South American Countries	13.47	12.11	.....	.....	....	..... 19 8	258,114 3 0
Europe	20.51	11.68	.....	.....	8	749,989	....
Asia and Africa	6.05	.....	.....	.....	1	....	....
Mexico and Central America	.....	.....	.....	.....	51	....	....
Cuba	.....	.....	.....	.....	.....	....	....
Other Countries	.....	17.16	.....	.....	.....	3,593,330 17 8	662,753 2 11
Total	100.00	100.00	.....	.....	100	4,343,320 17 4	920,867 5 11

TABLE V—*Continued*

	United States Deb. Corp.	Investment Tr. Corp.	Metropolitan Tr.	General Investors and Trustees	Scottish Mtge. and Tr Co.	London Scottish American Tr. Co.	Traction and Power Securities Co.
Number of Investments	594	524	398	.....	459	.....	285
	%	%	%	%		£	%
Bonds, Debentures and Debenture Stocks	65	60.1	53.2	55.96	.....	1,253,003	46.03
Preferred Shares and Stocks	23	19.5	19.8	23.71	.....	434,030	18.76
Ordinary Shares and Stocks	12	20.4	27.0	20.33	.....	367,667	35.21
Mortgages							
Total	100	100.0	100.0	100.00	.....	2,054,700	100.00
Government Loans	.....	12.1	10.0	13.65	.....	289,052	13.07
Railway Companies		32.5	30.9	19.78	.....	529,856	19.54
Electrical Railways and Public Utilities	.....	15.4	16.5	16.09	.....	343,793	19.92
Iron, Coal and Steel							
Commercial and Industrial	.....	32.5	29.9	26.88	.....	702,557	33.08
Banks, Financial and Investment	.....	7.5	12.7	22.43	.....	189,442	14.39
Miscellaneous	.....	.....	.....	1.17			
Total		100.0	100.0	100.00	.....	2,054,700	100.00
Canada							
Great Britain	52	35.5	33.6	.....	.....	737,219	36.10
British Colonies and Dependencies	9	7.5	7.9	.....	.....	159,075	13.21
United States	4	15.6	15.3	.....	.....	427,111	4.01
Argentina	.....	10.0	12.8	.....	.....	.....	11.25
Brazil	.....	5.5	5.1	.....	.....	.....	7.63
Other South American Countries	19	6.5	6.4	.....	.....	353,303	8.75
Europe	9	11.8	12.3	.....	.....	.....	12.84
Asia and Africa	.....	.....	1.6				
Mexico and Central America	.....	1.9	2.3	.....	.....	58,158	.97
Cuba	4	1.8	1.4	.....	.....	.....	1.61
Other Countries	3	3.9	1.3	.....	.....	319,834	3.63
Total	100	100.0	100.0	.....	.....	2,054,700	100.00

TABLE V—*Continued*

	Second Scottish American Tr. Co., Ltd.	Third Scottish American Tr. Co., Ltd.	Scottish Northern Inv. Tr., Ltd.	Second Scottish Northern Inv. Tr., Ltd.	Caledonian Tr. Co.	Scottish and Dominions Tr., Ltd.	Anglo-American Deb. Corp.
Number of Investments	428	400	515	.....	383	.....	.....
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£	£
Bonds, Debentures and Debenture Stocks	860,407 2 0	801,569 17 7	.....	.....	1,292,377 11 8	9,520	1,074,232
Preferred Shares and Stocks	354,646 17 7	306,684 2 8	.....	.....	.....	.....	453,998
Ordinary Shares and Stocks	263,564 17 10	248,662 13 3	.....	.....	857,283 9 6	185,725	473,201
Mortgages	.....	.....	.....	.....	.....	39,217	
Total	1,478,618 17 5	1,356,916 13 6	.....	.....	2,149,661 1 2	234,462	2,001,431
Government Loans	51,193 17 8	56,492 3 3	.....	.....	99,272 14 11	.....	.....
Railway Companies							
Electric Railways and Public Utilities	.....	.....	.....	.....	725,534 7 4	.....	.....
Iron, Coal and Steel							
Commercial and Industrial	.....	.....	.....	.....	1,091,640 16 10	.....	.....
Banks, Financial and Investment	.....	.....	.....	.....	.....	.....	.....
Miscellaneous	1,427,424 19 9	1,300,424 10 3	.....	.....	233,213 2 1	.....	.....
Total	1,478,618 17 5	1,356,916 13 6	.....	.....	2,149,661 1 2		
Canada	.....	.....	164,362 14 11	115,084 10 10	%		
Great Britain	.....	.....	833,699 13 1	854,161 14 6	28.72	.....	.....
British Colonies and Dependencies	.....	.....	.....	.....	14.94	.....	1,043,110
United States	.....	.....	130,677 2 2	70,206 9 1	11.27	.....	253,091
Argentina	.....	.....	.....	.....	9.52	.....	.....
Brazil	.....	.....	.....	.....	4.98	.....	.....
Other South American Countries	.....	.....	.....	.....	6.56	.....	.....
Europe	305,817 15 3	320,427 0 4	.....	.....	13.56	.....	.....
Asia and Africa	.....	.....	.....	.....	.....	.....	.....
Mexico and Central America	.....	.....	.....	.....	2.56	.....	.....
Cuba	.....	.....	.....	.....	.92	.....	.....
Other Countries	1,172,801 2 2	1,036,489 13 2	93,520 5 10	88,080 5 0	6.97	.....	705,230
Total	1,478,618 17 5	1,356,916 13 6	1,222,259 16 0	1,127,532 19 5	100.0	.....	2,001,431

Distribution as to Type of Security.—Taking up in the first instance those companies in the table that use lump sums to denote distribution, we may observe that although nine years have elapsed since the conclusion of the Great War, the trust companies still have relatively large sums invested in Government securities. Thus we find that the First Scottish American Trust Company, Ltd., with a valuation on its balance sheet of total investments amounting to £710,192 1s. 6d., has £36,037 16s. 3d. invested in Government securities. The Second Scottish American Trust Company, Ltd., with a slightly larger investment total, viz., £1,019,196 0s. 0d., has £51,193 17s. 8d. invested in Government securities and this relative proportion is fairly preserved by the other trust companies that account for their investments by the lump-sum system. Of course the Rubber Plantations Investment Trust, Ltd., is a company of special character and therefore its Government holdings, amounting to £989,693 1s. 3d., are not indicative of any general rule. It will also be observed that these companies place the greater part of their investments in bonds, debenture stocks, and other creditor obligations, and diminishing amounts in preferred and ordinary shares. This would seem to be in consonance with the general investment canons of the time in which we live. It is to be noted that in America a distinct movement has already begun in favor of investments in common stocks as long-term investments rather than in bonds and other creditor obligations which have heretofore been considered far more satisfactory.[1]

When we turn to the group of companies in Table V that account for their investments by the percentage method, we find practically the same situation as we have already discovered in connection with the first, or lump-sum, group. In the case of the second group, however, this situation is more easily comprehended. Thus, we find that the Second Industrial Trust Company, Ltd., has 42.82 per cent of its investments in bonds and creditor obligations; The Industrial General Trust Company, Ltd., 37.01 per cent; The Metropolitan Trust Company, 53.2 per cent. In striking contrast to these figures, we may observe that the same trusts have, respectively, 40.84 per cent, 44.06 per cent, and 27.0 per cent invested in common and ordinary shares. For some trusts in the group the difference is more striking, as, for instance, the London Colonial Trust, which has 67.0 per cent in bonds and other creditor obligations, and 6.23 per cent in common

[1] The reader is referred for information on this subject to a book entitled "Common Stocks as Long-term Investments," by Edgar Lawrence Smith, which has attracted much attention. (The Macmillan Co., 1924.)

and ordinary shares. It is true that there is apparently less variation than formerly; but it may be considered as a fact that, so far as British trusts are concerned, investment policies still favor creditor obligations as opposed to common stocks.

Distribution as to Type of Enterprise.—Considered from this point of view, it has been possible to discover only a very limited amount of data among this tabulated group of trusts, and these data are all in percentage form. It would seem that the most favored forms of investing are industrials and railways, but the figures collected are too few to enable one to make any general statement in this regard. As a matter of fact, it is believed that no rule exists among the various trusts regarding types of enterprise. The freedom of action which is a vital characteristic inherent in the true form of British trust makes it not only possible but desirable for trust managers to change investment policies, with the rapidly changing conditions of modern life. Therefore, the same trust may, within a period of five or six years, considerably change the securities in its treasury and, in response to different financial and business conditions, bring about a very decided readjustment as to the kinds of enterprises most favored.

A little reflection will show that since 1914 the situation in this regard has been greatly changed in the United States. There is no doubt that, before the War, railway securities stood first in the estimation of financial America, with public utilities a rather poor second and industrials lagging far in the rear. During the War, however, various industrial corporations attained such remarkable success that they forged speedily to the front in popular estimation from the standpoint of conservative investment. It should also be remembered that Government securities in the form of Liberty Bonds and Treasury notes gained a position of importance which they had not had for several years. Furthermore, after the circumstances caused by war conditions and governmental interference through commissions and otherwise were removed, public utilities gradually came back, and now in many instances are considered more desirable than railway securities. There is every reason to believe that, with such a change in the United States, a similar one is taking place in England and on the Continent of Europe. In fact, it is quite clear that changing conditions have already brought about changing investment policies.

It has been previously stated that war conditions and the rigorous administration of the American income tax undoubtedly have brought about, since 1918, a great depletion of American securities in the

treasuries of British trusts; and it has also been indicated that the funds derived from the sale of American stock and bonds have been employed by the trusts in the purchase of Government loans and in the acquisition of domestic, colonial, and South American securities. Hence, we find that the investment policies of British trusts at this time are in a state of flux and readjustment with regard to the types of enterprises in which they are invested; and we may only note the present trend of the situation and not in any way attempt to forecast a probable result. It is also well to call attention to the fact that promoting companies and companies admittedly covering a limited investment field do not afford any wide distribution as to type of enterprise, for to do so would be to deny the essential purpose for which they have been incorporated.

Geographical Distribution.—Here we find an interesting confirmation of the statements contained in the foregoing section. We may observe the relatively large proportion of securities which British trusts now keep invested in domestic enterprises. Thus we find by examination of the table that this percentage runs as follows: United States and General Trust Corporation, Ltd., 40.90 per cent; Second Industrial Trust, Ltd., 30.70 per cent; Industrial and General Trust, Ltd., 37.74 per cent; Sterling Trust, Ltd., 47.53 per cent; Merchants Trust, Ltd., 26.26 per cent; Traction and Power Securities, Ltd., 36.10 per cent. Compared with this series of ratios, the relatively small percentages invested in United States securities is pertinent. Thus, reading along the table, we find that the companies above referred to in connection with British investments have the following percentages in the United States: 7.6 per cent; 7.06 per cent; 8.71 per cent; 3.68 per cent; 22.02 per cent; 4.01 per cent, respectively. It is interesting also to note that with the decline of investments in American stocks and bonds there is a steady increase in colonial and South American investments. It is not necessary to quote the percentages, but this tendency is well revealed by even a cursory examination of Table V.

In concluding this topic it may be said that, so far as may be observed from the present situation of a number of typical trusts, the trend seems to be toward investment along four distinct lines:

1. Government securities;
2. Domestic enterprises (Great Britain);
3. Colonial securities;
4. South American investments.

It should be emphasized, however, that there is wisdom in following a flexible policy of this kind, which responds readily to economic and political changes. The author believes that such changing policies are in pleasing contrast to those of the type of investment trust which, through the provisions of its articles of agreement, is definitely restricted to a particular type of security, and sometimes, either literally or by implication, to a given geographical location.

MANIPULATION OF INVESTMENTS

Investment *vs.* **Speculation.**—Every nation has its own racial peculiarities, and it would seem that there is a marked distinction between the American and British attitudes toward the general subject of investments.

An American will seldom admit that he is speculating. Unless he is betting on a horse race or financing a search for sunken treasure, he will ordinarily inform you that he is investing. This is not true of the British investor. The Englishman, when he seeks a security for the purpose of investment, will ordinarily rigorously insist upon safety as a first requirement and will make yield, and even marketability, secondary considerations; on the other hand, when an Englishman desires to speculate, he does not, as a rule, deceive himself about it. He uses money that has been set aside for speculation, and, in applying it to this purpose, he takes more risk with less hypocrisy than his American cousin. This racial difference accounts to a considerable degree for the investment policy of British trust managers with regard to a certain proportion of the securities contained in their treasuries. The British trust has two distinct objects, the first one being to manage its affairs so conservatively that its fixed charges and creditor obligations will never be in danger; the second object of the British trust is to make a profit which may be distributed, through interim and final dividends, to the trust owners. This profit, as an examination of the data herein contained would readily reveal, is rarely less than 10 per cent per annum and often considerably in excess thereof. It is quite clear that a policy of ultra-conservative investment would never result in the accumulation of sufficient funds to realize both of the objects above described; hence, it may be said that trust managers have always been willing to take a certain amount of risk in encouraging and supporting new enterprises if their ultimate success has seemed reasonably assured. That mistakes have been made in pursuing this policy cannot be

denied; but it is also true that a large amount of money has been made in this way, and it is a fact that many domestic and foreign enterprises owe their original success to the practical support afforded them in their early days by British trust managers.

There is this important fact to be remembered, however, in connection with speculative purchases by British trust managers: even when speculating, the British buy only such securities as they are willing to hold permanently if they have to. Thus, while they may make a purchase with a large profit in view, they will exercise enough conservatism to enable them to retain the security in the treasury without loss if the profit is not realized.

It may be said that the general trend of policy in British investment trusts is that of placing the greater proportion of funds for investment in reasonably safe enterprises, although not in such enterprises as would be bought up, in this country, by executors and trust companies; and that, in addition to such reasonably conservative investment of funds, each trust seems to be willing on occasion to venture into the realm of speculation, where, after careful investigation, the chances of success seem to be bright. The risk taken ordinarily is not enough to affect the trust in any material way, and the reward in view is necessary for the general purposes of the organization.

Results of Manipulation of Investment Funds.—By reference to the balance-sheet tabulation set forth in Table I, the relation between the accumulation of reserves and the yield of trust securities, especially the ordinary shares, may be determined. It will be noted that the great majority of companies have reserves which in each individual case are rather less than £200,000, and that, while the capitalizations vary, the authorized capital is, in the majority of cases, less than £1,000,000. It will thus be seen that the average reserve, while of fairly good size, is not excessive. However, as this reserve is accumulated for the purposes of meeting unforeseen losses and carrying the company over periods of stress and strain without serious impairment to principal, or for the purpose of meeting taxes or possible drastic reductions in yield, it is evident that the provision made is adequate under any probable circumstances.

Concerning the definite results of free trading by trust managers with the securities held in their treasuries, it is interesting to examine the yield of ordinary or deferred shares as shown in Table I. The great majority of the trust companies there represented have paid dividends during the years tabulated in excess of 10 per cent, while

the average rate of return of the sixty-three trusts noted is 11.29 per cent per £100 of invested capital. Compare this with the lower yields of preference shares and debenture stock issued by the same companies, and it becomes evident that the company's profit is allocated to the ordinary shares, while the conservative yield dedicated to the general public comes from the return paid upon debenture stock.

Contractual Limitations of Investment Policy.—In adapting the investment-trust form to meet financial conditions in the United States, American financiers have in some instances placed many limitations upon the freedom of trustees or directors to invest or reinvest the funds of the trust. These limitations have usually taken the form of percentage allotments concerning the amount to be invested in any one enterprise or in a type or types of enterprise, or, in some cases, in one or more countries, in which event the restriction is, of course, purely geographical. Also, there are some restrictions concerning the type or types of security in which the trust money may be invested. Such restrictions are especially onerous in connection with the American type of trust issuing so-called "bankers' shares." In Great Britain, on the other hand, there is much less contractual restriction of managerial power. While there is a restriction as to type of security in the case of companies occupying some particular field, for instance, those dealing solely in stocks and bonds of electric corporations, nevertheless, the ordinary type of restriction employed by British trusts is one applying to the amount of the trust capital which may be invested at any one time in a particular enterprise. The following table shows the percentage restrictions employed by seven different companies and discloses a situation which is believed to be fairly typical of conditions generally prevailing. (See page 88.)

TABLE VI

RESTRICTIONS ON INVESTMENTS

Companies	Percentage Restriction of Issued Share and Debenture Capital of Company in One Security	Remarks
Northern American Trust Company, Ltd.	10 per cent *	May not invest in securities where liability is unlimited.
Merchants Trust, Ltd.	5 per cent	
British Investment Trust, Ltd.	5 per cent	May not invest in securities where liability is unlimited. Nor shall more than 5% of the Capital be invested in shares of Companies with limited and uncalled liability and then only with unanimous consent of the Directors.
General and Commercial Investment Trust	2 per cent	May not invest in securities where liability is unlimited.
Second Scottish Western Investment Company, Ltd.	5 per cent †	May not invest in securities where liability is unlimited.
Rubber Plantations Investment Trust, Ltd.	No limitation	
Alliance Trust Company	No limitation	

* Limit does not apply to securities of British Government.

† Five per cent of combined subscribed share and debenture capital of the Company, or 10 per cent of subscribed share capital, whichever is the greater.

CHAPTER VII

EARNINGS

SOURCES OF EARNINGS

Investment trusts derive most of their earnings from the interest and dividends received as income on the various securities held in their treasuries; but they also receive money from other sources, namely, promotion profits, profits received as a result of participation in underwriting syndicates, revenue from trusteeships, secretaryships, and registrarships, and also profit derived from the sale of investments.

One of the few features connected with British investment trusts which bears a certain resemblance to the routine operation of the American trust company of the banking type is the willingness of the British trusts to act as actual trustees under corporate mortgages, to function as secretaries of allied enterprises, and to become registrars for stocks and bond issues. From all of these operations a certain amount of income is derived, although reference to Table I will disclose the fact that the amount thus obtained is relatively small.

INCOME FROM UNDERLYING INVESTMENTS

By reference to Tables I and II, one may see how the income of a group of British trusts compares with the investments of the same group. It may be observed that the ratio of return is relatively high, the average percentage in this group of companies exceeding 6 per cent. The same general situation is believed to obtain with regard to the majority of British trusts.

Among the subordinate sources of income, the one item not fairly negligible is that of transfer fees. While relatively this is a very small item, it is true that from time to time various British trusts derive considerable amounts from one or more of these subordinate income sources. It is also true that very considerable amounts are derived from sales of investments by the trust managers, and these

profits are almost invariably added to the trust reserve and used to write down unattractive securities. However, the published reports of British trusts seldom reveal the exact profits derived from their sales of specific securities, and one is compelled to accept the amounts annually credited to the trust reserve as fairly indicative of the yearly profit derived from change of securities by timely sales.

APPRECIATION AS TO CAPITAL AND INCOME

Tables I and II, being constructed to cover a very brief period, will not disclose any appreciation as to capital or income. This particular point must be reserved until we come to study and analyze the life history of a particular British trust, when it will be possible to investigate the subject of appreciation over a considerable length of time.

It may be said, however, as a general proposition, that every successful British trust company is subject to capital appreciation; and while the steady gain in value among securities held in the trust treasuries is qualified by occasional losses, nevertheless, the capital of a successful trust tends to appreciate considerably over a period of years. In spite of this fact, the general custom is to continue to hold the trust securities upon the balance sheet at a figure representing their value at or under cost.

The income, on the other hand, is exactly accounted for. If it increases, as it usually does, the increase is precisely stated, while any diminution is accounted for with similar accuracy.

INVESTMENT-TRUST EARNINGS AS REFLECTED IN THE PRICE AND YIELD OF TRUST SECURITIES

This topic is an interesting one and is barometrical in nature.

In order to illustrate the variations of investment-trust companies over a period, Table VII, giving the prices and yields of fifteen British trusts, has been compiled from the reports of these trusts published in a leading British financial magazine, *The Economist*, over a fifteen-year period from 1912 to 1926, inclusive.

In this table, the effect of the Great War upon investment companies may be observed. In 1912, two years before the War began, hardly any company was paying as much as 6 per cent return on its preferred stock, and nearly every company was either above par or very near to it. Compare this column with that of 1915 and

note the difference in capital values. The drop has been considerable and the interest yield has begun to appreciate. The situation continues through 1916, 1917, and 1918; indeed, we do not begin to find any tendency toward a return to pre-war capital quotations until we come to 1923. It should be said, however, that during the war years many of these trusts apparently issued additional securities, as otherwise the decrease in capital value could hardly be accounted for. It is most interesting to observe, finally, the column that reports the prices and yields of 1924. There we find capital values returning, although slowly in some instances, while we also find a decided tendency on the part of the security world to shake off the high rates of war years and to return to a more reasonable level. Of course, as one might expect, the 1924 interest rates are still decidedly in excess of those of 1912.

It is worthy of note that, in spite of the shattering blows which the War dealt to the entire fabric of business and finance, the investment companies have been able to weather the storm and, if we are to believe the foregoing table which reflects the wealth of fifteen of them, are well on the road toward a permanent and satisfactory position of financial security. In this connection it may also prove interesting to examine another table, based upon figures derived from an examination of the same fifteen trusts, which will disclose the comparative figures at which the trust investments of these companies were held over the above-mentioned fifteen-year period.

The foregoing table clearly discloses the conservatism of British accountants. This table should be compared with the one immediately preceding, because, while Table VII shows decided and sometimes radical variations in prices and yields of trust securities, Table VIII illustrates the dogged manner in which trust investments were held to book values that in most cases must have been ultra-conservative, over the fifteen-year period during which events of a most disastrous nature greatly affected the entire world. The Great War disturbed practically everything on earth and was reflected in economic and financial changes, some of which were temporary and some permanent, but all of which were severe. British trust companies were no exception to the rule, and deeply felt the effect of the war years. Nevertheless, except for a lack of normal capital appreciation as to investments held, there is little of a positive nature in the foregoing table to indicate the occurrence of a great war. This is creditable to the ability and conservatism of British trust managers.

TABLE VII

British Investment Trusts—Prices and Yields

	1912				March 6, 1913				March 9, 1914				March 17, 1915				March 11, 1916				March 22, 1917				March 28, 1918				End of March, 1919			
	Price	Yield £	Yield s.	Yield d.	Price	Yield £	Yield s.	Yield d.	Price	Yield £	Yield s.	Yield d.	Price	Yield £	Yield s.	Yield d.	Price	Yield £	Yield s.	Yield d.	Price	Yield £	Yield s.	Yield d.	Price	Yield £	Yield s.	Yield d.	Price	Yield £	Yield s.	Yield d.
Army and Navy 5% cum. pref.	103	4	17	9	103	4	17	9	106	4	14	3	...	..	..	..	79¾	6	6	6	79	6	9	3	76	6	14	0	76	6	13	3
def.	168	5	7	3	168	5	7	3	175½	5	8	3	...	..	..	..	94¼	9	0	3	93	9	2	9	93	9	2	9	107	8	3	3
British Investment def.	264	5	6	0	264	5	6	0	267½	5	4	9	235	5	19	3	206	6	16	0	204½	6	17	0	202½	6	18	3	217½	6	8	9
4% & 5% cum. pref.	107½	4	13	6	107½	4	13	6	108½	4	12	3	...	..	..	..	90	5	11	6	86	5	16	3	87	5	15	0	86	5	16	3
For. and Col. Invest. 5% non-cum. pref.	112½	4	9	0	112½	4	9	0	108	4	12	6	100	5	0	0	87½	5	15	3	79	6	6	6	81	6	3	6	82	6	2	0
def.	143	5	12	0	143	5	12	0	140	5	14	3	109½	6	7	9	88	6	16	3	87	6	18	0	85½	7	0	3	91	6	11	9
Gov't Stock and other sec. 5% non-cum. pfd.	100	5	0	0	100	5	0	0	101	4	19	0	93⅝	5	6	9	75	6	13	9	70	7	2	9	69	7	5	0	69	7	7	0
def.	120	5	16	9	120	5	16	9	118½	5	18	3	.....	..	..	..	.....	..	..	..	60	8	6	9	58	8	12	3	68	7	9	3
Guardian Investment 4½% pref.	92	4	17	9	92	4	17	9	91½	4	18	3	93½	4	16	3	75⅛	5	19	9	64	7	0	9	61	7	7	6	69	6	10	6
def.	97	5	8	3	97	5	8	3	97	5	13	6	90½	6	2	0	65	6	18	6	58	7	15	6	57	7	16	0	70	7	2	9
International 4½% cum. pref.	91½	4	18	3	91½	4	18	3	88	5	5	0	75½	5	19	0	69½	6	9	6	60	7	10	0	57	7	18	9	60	7	10	0
def.	84	5	17	9	84	5	17	9	80	6	5	0	71	5	12	9	40¾	8	11	9	38	9	4	3	45	7	15	6	52	8	13	3
Merc. Inv. and Gen'l 5% cum. pref.	105	4	15	3	105	4	15	3	107	4	13	6	100	5	0	0	88	5	13	9	81	6	3	6	81	6	3	6	82	6	2	0
ord.	121½	5	7	0	121½	5	7	0	125½	5	11	6	104½	5	14	9	88	6	16	3	85	7	1	3	85	7	1	3	97	6	14	0
Merchants 4% cum. pref.	91	4	10	0	91	4	10	0	88	4	13	0	81	4	18	9	68½	5	16	9	61	6	11	2	66	6	1	3	65	6	3	0
ord.	145	5	10	3	145	5	10	3	136½	5	17	3	98½	8	2	6	91½	8	14	9	89	8	19	9	99	8	1	9	112	7	2	9
Metropolitan ord.	234	5	11	0	234	5	11	0	230½	5	12	3	199	6	10	9	190	6	6	3	157½	7	12	3	158½	7	11	3	169½	7	2	0
Omnium 5% cum. pref.	99	5	1	0	99	5	1	0	99	5	1	0	96½	5	3	9	70	7	2	9	72	6	18	9	70	7	2	9	69	7	5	6
def.	107	5	12	3	107	5	12	3	109½	5	18	9	85	7	13	6	59	6	15	6	58	6	18	0	58	7	15	3	65	8	1	6
Premier Invest. ord.	.....	..	..	..	110½	6	6	9	110½	6	6	9	101¼	4	18	3	80	2	10	0	40	7	10	0	48½	6	3	9	56	7	2	9
5% cum. pfd.	.....	..	..	..	98	5	2	0	98½	5	0	6	96	5	4	3	71½	5	15	3	70	7	2	9	68	7	7	6	70	7	2	9
4½% deb.	.....	..	..	..	100¾	4	11	0	101	4	10	0	96½	4	13	0	75	6	0	6	74	6	13	6	73	6	16	3	74	6	15	3
Railway Deb. 4½% cum. pfd.	96	4	13	9	96	4	13	9	95	4	14	9	89½	5	0	6	79½	5	15	6	66	6	16	3	65	6	19	0	67	6	16	3
ord.	111	6	6	3	111	6	6	3	108	6	9	9	86½	6	6	9	86	5	16	3	63	7	18	9	61	8	4	6	63	8	14	9
Railway Share 7½% cum. pref.	129½	5	18	0	129½	5	18	0	128	5	16	9	118½	6	6	6	95½	7	17	0	99½	7	6	3	101½	7	8	3	107½	7	0	0
ord.	85½	5	17	0	85½	5	17	0	79	6	6	6	.....	..	..	..	65	3	17	0	39	6	18	9	41	7	6	3	54	7	9	3
River Plate and Gen'l 4½% cum. pfd.	97	4	12	9	97	4	12	9	96	4	13	9	89	5	1	3	75	6	4	3	74	6	1	6	74	6	1	6	72	6	5	6
def.	199½	5	10	3	199½	5	10	3	190	5	15	9	149	6	14	3	119	8	8	0	119½	8	7	3	124½	8	0	9	142½	7	0	3
Scottish Amer. Invest. & 4% pref.	94½	4	6	0	94½	4	6	0	94	4	6	0	86	4	14	3	74½	5	7	6	69½	5	15	3	69½	5	15	3	73	5	11	0
ord. (£2)	6⅜	5	8	9	6⅜	5	8	9	6 3/32	5	8	0	5 3/32	6	6	0	5⅛	6	5	3	5 1/16	6	12	6	5 1/16	6	18	8	5⅛	6	3	0
U. S. Deb. 5½% cum. pref.	107	5	3	3	107	5	3	3	109	5	1	0	105½	5	4	3	37	6	6	6	80	6	17	6	79	6	19	3	78	7	1	0
ord. (£1)	1 1/16	6	19	3	1 1/16	6	19	3	1⅛	7	5	6	1	10	0	0	1/16	10	13	3	1	10	0	0	1	10	0	9	1¼	8	0	0

TABLE VII—*Continued*

	End of April, 1920				March 31, 1921				March 20, 1922				March 26, 1923				March 19, 1924				March 31, 1925				March 30, 1926				March 17, 1927			
	Price	Yield			Price	Yield			Price	Yield			Price	Yield			Price	Yield			Price	Yield			Price	Yield			Price	Yield		
		£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.
Army and Navy 5% cum. pref.	74	6	15	9	62	8	5	0	77	6	9	9	89	5	12	9	90	5	11	6	93	5	9	3	90½	5	10	6	88½	5	12	0
def.	117	8	3	3	109	9	12	9	112	9	6	9	135½	8	2	3	143½	7	13	6	177½	6	15	3	220	5	9	0	270½	5	3	6
British Investment def.	214½	6	9	9	195½	7	13	6	237½	6	6	3	290	5	10	3	320	5	6	3	375	5	1	3	410	4	17	6	440	4	11	0
4% & 5% cum. pref.	79	6	9	0	72	6	19	0	89	5	12	3	93½	5	10	9	92½	5	8	0	94	5	6	0	94	5	6	0	92½	5	8	0
For. and Col. Invest. 5% non-cum. pref.	73	6	19	0	71	7	0	9	82½	6	1	3	89½	5	12	0	91½	5	9	3	94½	5	5	9	91	5	10	0	89½	5	13	9
def.	89	7	6	0	79½	8	16	3	94½	7	8	3	106½	6	12	0	107½	6	10	3	119	6	5	9	131½	5	14	0	134½	5	11	6
Gov't Stock and other sec. 5% non-cum. pfd.	66	7	12	0	60	8	7	3	67	7	9	3	79	6	7	3	84½	5	18	3	87½	5	14	3	87	5	14	9	83½	6	1	0
def.	75	8	0	0	64	10	19	3	67	10	9	0	91½	7	13	9	100½	7	19	3	121½	6	11	9	164½	6	1	6	177½	5	12	9
Guardian Investment 4½% pref.	66	6	6	0	59	7	11	3	65	6	18	6	72	6	7	6	81½	5	10	6	84½	5	6	6	79½	5	14	3	82½	5	9	0
def.	82	8	9	3	75½	9	18	9	76	9	17	3	111½	7	3	9	119½	7	10	9	182½	5	9	6	174½	5	14	6	202½	5	3	9
International 4½% cum. pref.	59	7	12	6	53	8	9	9	59	7	12	6	75	6	0	0	74½	6	0	3	79	5	2	0	76½	5	17	9	74	6	1	6
def.	61	8	4	0	54	11	2	3	55	10	18	3	78	7	13	9	85½	7	0	3	117½	5	19	3	138½	5	15	6	169½	5	0	3
Merc. Inv. and Gen'l 5% cum. pref.	77	6	9	3	69	7	5	0	80½	6	4	0	96	5	4	3	93½	5	7	0	93½	5	9	6	93½	5	7	0	93½	5	7	0
ord.	107	7	0	3	98	8	13	6	119½	7	10	9	150½	6	6	3	155½	6	13	3	217½	5	10	3	241½	5	7	9	285½	4	18	0
Merchants 4% cum. pref.	59	6	15	6	55	7	5	6	62½	6	8	0	70	5	14	3	74	5	8	0	75½	5	6	0	73½	5	8	9	72	5	11	0
ord.	111	7	4	3	96½	9	6	6	106	8	9	3	131½	7	4	6	135½	7	7	6	185½	5	19	3	200½	5	19	9	218½	5	9	9
Metropolitan ord.	172½	7	10	0	155½	9	0	0	195	7	3	6	228½	6	2	6	267½	5	19	9	340	5	3	0	350	5	5	9	370	5	0	0
Omnium 5% cum. pref.	67	7	12	9	63	7	5	6	65	7	13	9	81½	6	2	9	81½	6	3	9	86½	5	16	3	86½	5	15	6	83½	5	19	9
def.	82½	7	5	6	69	9	1	0	70	10	0	0	90½	7	15	6	102	7	16	9	121½	6	12	3	146½	5	9	3	164½	6	1	6
Premier Invest. ord.	69	8	15	3	61½	10	11	3	61½	10	11	3	81	8	0	6	81	8	12	6	118	6	15	6	160½	6	4	6	164	6	2	0
5% cum. pfd.	66	7	11	6	62	7	19	3	63	7	18	9	77½	6	9	6	79½	6	5	0	81½	6	2	9	82½	6	1	3	82½	6	1	3
4½% deb.	64	8	0	9	62	7	16	9	72	6	5	0	82	6	0	3	79½	6	4	0	85½	6	2	6	82½	5	15	0	83½	5	17	0
Railway Deb. 4½% cum. pfd.	63	7	2	3	55	8	4	9	70	6	8	6	75	6	1	3	77	5	16	0	80	5	13	0	80½	5	11	9	77½	5	16	9
ord.	66	8	6	0	54½	11	0	3	62	9	13	6	89	6	14	9	93	7	10	6	130	5	17	0	140½	5	14	0	135½	5	18	0
Railway Share 7½% cum. pref.	102½	7	9	3	97½	7	15	6	103½	7	5	0	105½	7	3	0	107½	6	19	6	127½	5	18	0	122½	6	2	6	99	5	11	0
ord.	63	7	18	6	52½	9	10	6	64	7	16	3	73	6	17	0	78	7	13	9	109½	5	19	0	125½	5	19	6	145½	5	10	0
River Plate and Gen'l 4½% cum. pfd.	69	6	9	6	60	7	10	0	69	6	10	6	80	5	12	6	79	5	11	0	81	5	11	0	79½	5	14	3	79	5	15	6
def.	134½	7	9	9	108½	9	4	3	111½	8	19	3	150½	7	6	3	165½	7	5	0	242½	5	15	6	287½	5	11	6	309½	5	13	0
Scottish Amer. Invest. 4% pref.	64½	6	5	6	63½	6	9	6	64	6	5	0	78	5	2	6	76½	5	6	0	77½	5	5	0	74½	5	9	0	72½	5	10	3
ord. (£2)—3/31/25 ord. "B" (£1)	5½	6	17	0	5½	6	14	0	5	7	4	0	6¾	5	13	0	7¼	5	1	0	1¾	5	15	0	1¾	5	15	0	1¾	5	14	0
"A" (£1)																					4½	3	10	0	4½	4	14	0	6	3	6	9
U. S. Deb. 5½% cum. pref.	77	7	3	9	73	7	10	9	72	7	12	9	90	6	3	6	95½	5	15	3	100½	5	9	6	100½	5	9	6	99½	5	10	6
ord. (£1)	1½	10	0	0	1 1/16	11	14	0	1 3/16	10	11	0	1 1/16	9	10	0	1 7/16	9	10	0	2	6	5	0	235	5	19	3	262½	5	6	9

TABLE VIII

British Investment Trusts—Book Value of Investments

	1912	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Army and Navy	1,204,016	1,216,295	1,228,273	1,199,393	1,211,337	1,212,696	1,213,519	1,209,775	1,216,623	1,211,276	1,217,202	1,220,269	1,215,524	233,831	255,426
British Investment	4,980,894	5,254,960	5,282,666	5,238,737	5,256,893	5,242,335	5,410,456	5,202,592	5,206,257	5,303,787	5,428,222	5,468,532	5,505,357	1,130,000	1,500,000
Foreign and Colonial	3,107,064	3,093,121	3,118,547	3,161,727	3,137,084	3,147,424	3,180,140	3,153,957	3,184,452	3,171,801	3,144,866	3,194,266	3,191,255	714,000	434,000
Government Stock	1,674,676	1,870,483	2,023,050	1,920,488	1,848,420	1,881,933	1,908,923	1,955,192	2,003,194	1,967,527	1,987,675	1,997,409	1,985,091	100,000	100,000
Guardian	1,128,630	1,129,787	1,126,827	1,102,143	1,111,801	1,109,691	1,115,168	1,110,743	1,136,522	1,121,242	1,140,511	1,114,607	1,126,503	.....	.....
International	1,742,771	1,724,751	1,745,645	1,705,581	1,721,776	1,723,342	1,737,417	1,753,005	1,768,567	1,780,533	1,801,377	1,805,915	1,800,277	.....	.....
Mercantile Investment, General	5,541,127	6,131,090	6,370,689	6,412,297	6,119,831	6,372,126	6,380,282	6,450,269	6,543,883	6,476,563	6,532,383	6,470,162	6,607,178	500,000	550,000
Merchants	2,819,252	2,874,545	2,969,013	3,041,831	2,791,783	3,062,594	3,100,220	3,004,893	3,034,168	3,083,840	3,109,919	3,147,554	3,162,703	303,750	303,750
Metropolitan	1,613,255	2,033,310	2,126,413	2,081,752	2,075,661	2,092,457	2,123,470	2,089,480	2,105,398	2,065,430	2,133,146	2,165,860	2,624,651	550,000	550,000
North American	2,595,778	2,642,780	2,640,816	2,592,954	2,586,076	2,565,310	2,531,302	2,306,178	2,564,856	2,524,437	2,622,053	2,630,629	2,975,626	850,000	870,000
Omnium	947,932	1,298,737	1,732,180	1,637,138	1,563,171	1,630,631	1,643,030	1,720,845	1,726,311	1,708,249	1,733,054	1,719,867	1,733,936	50,000	50,000
Premier	.....	1,366,932	1,559,484	1,502,414	1,483,214	1,470,452	1,578,108	1,464,154	1,604,708	1,563,452	1,524,424	1,531,133	1,529,291	12,012	42,012
Railway Deb	2,280,265	2,340,792	2,385,928	2,332,759	2,297,495	2,253,708	2,323,303	2,290,456	2,218,710	2,300,962	2,276,186	2,297,657	2,307,601	225,000	225,000
Railway Share	870,576	1,069,201	1,110,895	1,108,766	1,120,238	1,179,465	1,170,057	1,182,497	1,197,103	1,225,923	1,283,851	1,404,783	1,407,472	210,000	125,000
River Plate and General	961,701	955,704	984,926	961,457	949,956	982,208	965,303	987,701	986,096	990,484	1,005,925	1,017,791	1,036,976	201,789	224,308
Scottish American Investment	4,001,763	4,174,950	4,486,874	4,598,328	4,577,264	4,449,112	4,396,088	4,351,825	4,331,746	4,299,019	4,329,875	4,291,364	4,411,510	600,000	625,000
United States Deb	1,958,241	2,028,453	2,045,631	2,010,791	1,978,789	2,072,958	2,107,441	2,065,761	2,055,053	2,085,146	2,130,865	2,087,455	2,187,278	333,000	350,000
Industrial and General	.....	.....	.....	.....	.....	.....	4,370,003	.....	.....	.....	.....	.....	.....	.....	.....

TABLE IX

British Investment Trusts—Total Reserves

	1912	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Army and Navy	236,576	244,733	244,616	233,438	233,296	233,296	233,296	225,152	225,152	225,152	225,152	225,152	227,193	1,241,692	1,240,895
British Investment	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	1,130,000	5,546,593	6,019,813
Foreign and Colonial	701,000	702,956	707,855	721,928	735,000	735,000	735,000	735,000	735,000	735,000	735,000	735,000	735,000	3,189,318	2,913,450
Government Stock	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	80,000	80,000	100,000	100,000	2,029,258	2,054,004
Guardian	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,202,647	1,818,859
International	.....	.....	.....	19,431	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,807,725	1,788,006
Mercantile Investment, General	350,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	400,000	450,000	6,707,793	6,840,612
Merchants	103,750	303,750	303,750	260,000	260,000	260,000	303,750	303,750	303,750	303,750	303,750	303,750	303,750	3,136,902	3,372,180
Metropolitan	350,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	550,000	2,717,593	3,119,476
North American	510,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	660,000	3,657,595	3,981,870
Omnium	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	50,000	50,000	1,938,302	2,021,850
Premier	.....	11,465	6,362	6,099	12,012	12,012	12,012	12,012	12,012	12,012	12,012	12,012	12,012	1,530,061	1,648,050
Railway Deb	251,000	251,000	251,000	258,282	263,869	272,919	260,118	270,918	276,378	262,000	266,000	279,000	225,000	2,488,929	2,499,254
Railway Share	80,418	80,418	84,000	90,939	91,716	96,353	111,710	157,552	182,384	184,000	190,000	190,000	200,000	1,397,379	1,749,395
River Plate and General	150,000	150,000	160,000	160,000	164,000	168,000	176,000	126,000	130,000	140,000	145,000	150,000	166,374	1,066,062	1,115,340
Scottish American Investment	820,000	860,000	900,000	940,000	940,000	940,000	940,000	940,000	940,000	940,000	940,000	950,000	950,000	4,604,836	4,662,573
United States Deb	255,000	280,000	280,000	280,000	280,000	280,000	300,000	315,000	315,000	315,000	315,000	315,000	315,000	3,211,942	3,259,414

DISTRIBUTION OF EARNINGS

Payment of Overhead Expense.—Let us now examine the methods of British trust companies in expending income. We have already analyzed and commented upon the various overhead expenses of investment trusts. Little need be said in detail, therefore, regarding this matter, except to point out how relatively large in each case is the amount of interest paid to the security holders of the trust, and how small the amount devoted to management expenses and the payment of lawyers, auditors, etc.

Accumulation of Reserves.—Let us now return to the group of fifteen investment trusts previously mentioned and examine a tabulation also made from the files of *The Economist*. The purpose of this tabulation is to disclose the total reserves of these companies over a fourteen-year period. While data could not be obtained for three of these trusts, nevertheless, from the figures that could be secured, an interesting table has been framed, viz.:

It will be observed that a number of these companies have held their reserves practically at the same figure over the entire period. Where this has been done, it is reasonable to suppose that considerable sums, which otherwise would have been credited to Reserve, have been employed to write off losses which in many instances were probably caused by the War. It is also probable that most cases of static reserves occur where the trusts, being of a promotive nature, have been forced to employ most of their available moneys as working capital. Other trusts, however, as, for instance, the Railway Share Corporation, Ltd., the River Plate General, Ltd., and the Scottish American Investment, Ltd., have all apparently used real figures; and, while the fluctuations revealed by this table are not as great as one would expect, and the appreciation of the reserve funds is slower than one would suppose it to be, nevertheless, over the period there has been a definite appreciation in almost every case, and that, of course, is the purpose of reserve accumulation.

It is believed that from now on trust reserves will be accumulated much more rapidly than during the past decade, and that there will be a steady accretion of the reserve funds on the part of all active and fairly prosperous companies.

It has been previously stated that it is the practice of British trusts to add all profits derived from the sale of trust securities to the reserve. Though sometimes such appropriation of profits does not appear on the balance sheet as reserve accumulations, because it is used to write down unprofitable securities, nevertheless, the appro-

TABLE X

British Investment Trusts—Net Revenue and Dividend Record

	1909		1910		1911		1912		1913		1914		1915		1916		1917	
	Net Revenue	Div.	Net Revenue	Div.	Net Revenue	Div.	Net Revenue	Div.	Net Revenue	Div.	Net Revenue	Div.	Net Revenue	Div.	Net Revenue	Div.	Net Revenue	Div.
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%
Army and Navy	37,951	7½	38,337	7½	39,667	8½	40,829	9	42,719	9½	39,664	9½	33,260	8½	31,707	8½	28,852	8½
British Investment	132,420	11	126,487	12	136,617	13	143,286	14	188,940	14	170,537	14	150,968	14	145,211	14	135,424	14
Foreign and Colonial	135,516	7	136,039	7½	140,262	7½	144,777	8	145,939	8	131,484	7	111,081	6	102,384	6	97,829	6
Government Stock	39,802	5	39,287	6	44,684	7	61,702	7	69,011	7	50,568	7	36,006	5	37,267	5	39,287	5
Guardian	31,838	4½	30,784	4½	32,636	5	34,547	5½	36,874	5½	33,997	5½	27,040	4½	25,973	4½	25,240	4½
International	48,960	4	51,173	4½	51,557	4½	55,100	5	54,093	5	42,147	4	38,163	3½	33,166	3½	38,193	3½
Mercantile Investment and General	114,398	5	132,910	5½	151,480	5½	165,235	6½	194,293	7	192,489	6	165,059	6	151,007	6	148,347	6
Merchants	70,684	7	79,031	8	79,537	8	85,835	8	83,932	8	75,267	8	65,710	8	65,399	8	64,732	8
Metropolitan	47,945	10	48,983	10½	54,881	12	57,047	13	63,115	13	71,666	13	57,709	12	53,231	12	53,314	12
North American	79,717	11	84,175	11	87,024	12	90,084	12	90,483	13	81,386	13	69,981	13	65,795	13	63,168	13
Omnium	23,668	4	25,673	4½	27,199	5	30,809	6	38,318	6½	38,588	6½	30,382	4	28,472	4	35,951	4½
Premier					20,061	7	33,533	7	42,074	7	35,074	5	28,568	2	32,710	3	35,176	3
Railway Deb.	43,435	6	44,209	6¾	51,479	6	71,297	7	65,577	4	56,306	5½	53,458	5	52,667	5	52,650	5
Railway Share	68,308	5	58,360	5	63,488	5	51,493	5	48,907	5	42,694	3½	39,498	2½	45,256	3	47,058	3
River Plate and General	35,805	8	38,756	9	44,214	10	45,436	11	48,431	11	42,617	10	40 516	10	40,876	10	41,319	10
Scottish American Inc.	139,572	13½	145,227	16	152,506	17	156,758	18	160,927	18	162,288	18	158,323	18	144,890	18	144,723	18
United States Deb.	31,209	7½	51,546	7½	52,474	7½	55,499	10	59,472	10	50,115	10	44,118	10	48,620	10	55,350	10

	1918		1919		1920		1921		1922		1923		1924		1925		1926	
Army and Navy	30,314	9	35,052	9½	39,200	10½	34,886	10½	37,169	11	41,621	11	47,158	12	49,485	12	51,094	14
British Investment	132,327	14	138,568	14	166,871	15	162,538	15	158,116	16	185,206	17	203,392	19	207,882	20	219,852	20
Foreign and Colonial	96,369	6	99,568	6½	104,219	7	113,336	7	108,785	7	115,332	7	127,269	7½	130,030	7½	137,082	7½
Government Stock	40,395	5	41,936	6	50,564	7	44,464	7	44,361	7	51,589	8	57,520	8	68,335	10	72,037	10
Guardian	26,161	5	29,716	7	34,930	7½	33,407	7½	34,129	8	41,575	9	44,289	10	47,630	10	66,032	10½
International	38,090	4½	38,616	5	45,997	6	41,563	6	44,080	6	55,118	6	55,473	7	59,029	8	63,468	8½
Mercantile Investment and General	148,795	6½	157,935	7½	186,097	8½	188,222	9	187,954	9½	229,291	10½	248,994	12	264,347	13	278,902	14
Merchants	58,791	8	67,083	8	81,718	9	86,739	9	80,420	9½	92,461	10	103,531	11	108,512	12	114,475	12
Metropolitan	52,018	12	55,509	13	63,809	14	70,787	14	72,490	15	80 662	16	94,584	17½	115,364	18½	119,039	18½
North American	60,026	13	60,490	13	13,688	13	74,154	14	73,843	14	81,239	15	92,394	16	117,057	17	144,820	18
Omnium	37,396	5	39,837	6	45,221	7	37 918	7	37 515	7	46 902	8	43,413	8	44,533	8	73,525	10
Premier	38,418	4	44,804	6	46,890	6½	42,748	6½	43,224	6½	47,983	7	51,554	8	61,381	10	65,272	10
Railway Deb.	56,008	5½	57,856	6	64,869	6	60,173	6	61,666	6	70,837	7	72,628	7½	76,293	8	77,763	8
Railway Share	53,268	4	59,341	5	66,464	5	54,205	5	52,225	5	59,987	6	65,368	6½	68,573	7½	82,997	8
River Plate and General	44,363	10	46,513	10	53,662	10	47,441	10	50,807	11	56,257	12	60,295	14	64,204	16	67,940	17½
Scottish American Inc.	141,693	18	134,763	18	149,222	18	146,991	18	154,809	18	162,270	18	172,909	10B 15A	191,855	10B 20A	210,711	10B 20A
United States Deb.	55,707	10	59,142	12½	64,879	12½	59,302	12½	59,915	12½	65,307	13½	67,659	12½	115,416	14	143,735	14

priation is as actual in one case as in the other, and additions to reserve form one of the two important purposes to which British trusts devote their income.

Payment of Dividends.—Generally speaking, the dividends of British trusts are payable semi-annually; this is true whether they are payable upon preferred stock, upon ordinary or common stock, or upon debentures. In America such payments are termed semi-annual dividends, but in Great Britain the first dividend is called the interim dividend and the last payment is called the final dividend.

The dividend policy of the average British trust is conservative. Where the annual yield is low, as in the case of preferred stock and debentures, the trust directors, knowing just about what the annual interest payment will be, will pay, for example, 2 or 2½ per cent at the end of the first six months as an interim dividend, being in no doubt as to their ability to make the next and final payment of equal size.

In the case of ordinary or deferred shares, however, to which the major portion of the corporate profits is bound to go, trust directors are wont to exercise considerably more caution. Interim dividends of 4, 5, or 6 per cent are frequently supplemented by final dividends of as much as 8 or 10 per cent, so that the yearly yield upon ordinary shares often amounts to somewhere between 10 and 20 per cent.

An interesting example of the dividend records of a group of companies has been obtained by tabulating relevant data obtained from *The Economist* and relating to the same group of British trusts as has been mentioned above.

A study of this table will show how unequally the various members of this selected group of trusts were affected by the Great War, as far as their net revenue was concerned. Apparently it affected all of them, but in different degrees. It will be readily observed that the variations in net revenue are more or less reflected in the dividends paid, although it may be noted that the fluctuations in rates of dividends are comparatively slight and much less impressive than would be observed in studying a similar table relating to the same number of American industrial corporations. Obviously, a determined effort was made to maintain a steady and reliable dividend policy, and it is clear that dividends were not reduced among this group unless a very good reason existed for a reduction. On the other hand, dividends have been increased but slowly. We may, therefore, conclude that the distinguishing feature of the general dividend policy of British trusts, as disclosed by the group selected for consideration, would seem to be a steadfast conservatism.

CHAPTER VIII

MANAGEMENT

THE VITAL FEATURES OF THE INVESTMENT TRUST

There are two factors which are absolutely essential to the success of the investment-trust form. The first, which is the more important of the two, is honest and efficient management. The second factor, which results directly from the first, is the ability to obtain diminution of risk through the investment of the trust capital in a large list of securities, diversified as to type, character, and geographical location.

It has been possible for many years for investors to obtain expert advice from lawyers, accountants, and investment bankers; and it has been equally possible for large investors to diversify their own security holdings to a considerable extent. Except through the investment form known as the "investment trust," however, it has not been possible for many investors to obtain the two important factors of expert management and diversification at one and the same time. It cannot be too earnestly emphasized that efficient management is the most important feature of investment trusts.

MANAGERIAL POLICY FROM THE PROMOTER'S STANDPOINT

Every British trust has two groups to consider: its shareholders, or owners; and its security holders, or investors. The promoters of an investment trust have usually had some previous experience in the same field; and it is an interesting feature of British companies that usually rather than capitalize them for amounts in excess of £1,000,000, their promoters will subsequently incorporate additional companies, the idea apparently being that in this way it is possible to increase capitalization with more ease and also take advantage of lessons learned by the operation of one trust, in the formation of a subsequent one. In addition to a general policy of keeping investment trusts from becoming too large, the trust owners have to carry

out the double program of taking care of the investors and, at the same time, of themselves. Investors in British trusts are represented by debenture holders and, as is the case in this country, they are paid just enough return to induce them to invest. Thus, the average yield upon British trust debentures to-day lies between 4 and 5½ per cent, with more interest paid in the neighborhood of the first figure than of the second. Such interest rates would not be particularly alluring in the United States; but we must remember that interest rates have always been higher here than abroad, and that such a condition is to be expected in a big, new country, seething with business activity and still apparently largely unaffected by the deplorable and world-wide depression resulting from the Great War, although at this time (February, 1928) there is a distinct tendency toward lower return upon investments due to easier money conditions.

In addition to the interest paid to investors, however, the trust managers are always mindful of the reward due to themselves. Hence, while they are noted for their conservatism and caution, which are necessary to insure safety to the concern as a whole, and which are certain to result in sufficient funds to make all necessary operating payments and to yield a certain and perhaps low debenture rate, we find British trust managers earnestly devoted to a policy of careful trading and opportune profit taking. This, they believe, will result not only in the accumulation of adequate reserves but in a sufficiently prosperous business condition to warrant the payment of relatively large dividends to the holders of ordinary or deferred shares. These dividends, often exceeding 10 per cent, represent the profits accruing to the trust owners and form the principal object in view when the trust is organized. Financial altruism has very definite limitations; and if debenture holders are honestly represented and receive a sufficiently fair return to keep them satisfied and retain their interest, we may be sure that even the most meticulous manager of a British trust will feel not merely justified but encouraged to award a considerable portion of the remaining profit to the proprietary interest.

MANAGERIAL POLICY FROM THE STANDPOINT OF THE PUBLIC

From the investment standpoint, the public is always divided into a number of groups; and that group which puts its money in the hands of trust managers is a conservative, not a speculative group. The public always deserves the largest possible return upon invested

funds; but the conservative group only deserves such a return as is consistent with reasonable assurance that the principal invested is safe. We find, therefore, that British investors are glad to buy investment-trust debentures although the interest rate from them is comparatively low, because through years of experience they have learned that the management is honest and capable and the risk is well diversified. The British investing public is satisfied that investment-trust owners should receive relatively large returns upon their ordinary stock, if the debenture stockholders may on their part rest assured that they will receive a conservative yet steady dividend upon their invested funds, the safety of which, largely because of the ability of the trust managers, they feel to be assured.

QUALIFICATIONS OF TRUSTEES, DIRECTORS, MANAGERS, AND SECRETARIES

In Great Britain there is a comparatively small group of men engaged in the management of investment trusts. There is no analogous group in America, the nearest approach in type being the old family lawyer of our fathers' time, who, in addition to looking after the legal needs of his clients, also invested their savings, acted as trustee in many of their business ventures, became guardian for their children, and, finally executor of those whom he survived.

Investment trusts were started in Scotland by solicitors, or, as they are called, Writers to the Signet, and in England by chartered accountants who were similar to certified public accountants. It was necessary that the men doing this highly specialized work should use every available means of securing information regarding the large number and variety of investments, both domestic and foreign, in which they invested the funds entrusted to their keeping. To obtain such information, experience in financial matters and methods was required, also a retentive memory well filled with financial facts and history, and, beyond this, an accurate power of financial analysis. The last-named qualification was essential in order that the many investments offered might be carefully and shrewdly examined and the wheat separated from the chaff.

It is a matter of astonishment to many observers that, in the case of the majority of British trusts, so much difficult and expert work has been performed by such a small number of men. This situation is reflected in the moderate overhead expenses of the specific trusts selected for financial analysis in this treatise.

One question, however, does present itself in connection with trust management, and that is: "Can such expert management be readily perpetuated and, if so, how?" It is undoubtedly true that, both on this side of the water and abroad, we often find an investment company whose policies are dictated entirely by one man, and the greater part of whose work is also performed by him. If the dividends of such a trust mount rapidly, the credit for its success belongs entirely to the manager; on the other hand, if illness or death suddenly removes a trust manager of this type, it may be difficult and perhaps impossible to replace him without delay. Such a personal management often furnishes ground for legitimate criticism of a specific trust, and, in a general way, for criticism of the financial form, the investment company. Reflection will assure us, however, that almost every other activity in life is subject to the same danger. A successful corporation may pass one or more dividends because a particularly brilliant executive has suddenly died; a nation may fall into revolution or bankruptcy from the same cause; and, as long as men are men and death takes them, no method can be found by which such a danger can be entirely obviated. It may be suggested, however, that each and every investment trust should have, not merely a managing director of proved integrity and ability, but at least one assistant manager who is capable of taking up the work should his superior for any reason be compelled to lay it down.

LEGAL REGULATIONS

In Great Britain, the English Companies Acts seem to control adequately the organization and operation of British investment companies. These acts have already been carefully discussed. It may be said here, however, that they were designed to insure perpetual succession and limited liability, and that, in return for these favors, they protect the public by providing for publicity of investments, responsibility of management, and a system of periodical audits for the purpose of collecting, at stated periods, all necessary information regarding the business.

In the United States, on the other hand, there is very little legal protection except the Federal statutes which forbid use of the United States mail to accomplish fraud. There are forty-nine types of corporation law in this country, one for each state in addition to that of the Federal Government, and the contradictions and inconsistencies of the different acts are many and various. It might be an excellent

thing if, in the near future, the long-discussed plan of providing adequately for the incorporation of companies under a Federal statute should be placed in effect. If this were done, it is believed that investment trusts would prove to be a type of corporation directly suitable for Federal control, especially in view of the fact that in the future they will, in all probability, deal very largely with foreign securities. It is quite true that, to a limited extent, such corporations are provided for under the so-called Edge Act, but this statute is limited in nature while the field to be covered is broad.

Unquestionably as time goes on the Blue Sky commissions of the various states will exercise a certain salutary control over the sale of investment trust securities and it is also believed that investment trusts should be brought under the direct supervision of state banking departments.[1]

PERIODICAL AUDITS BY CHARTERED PUBLIC ACCOUNTANTS

This provision of the Companies Acts is one of the most protective features that they contain. Moreover, in the case of British investment trusts, the articles of association usually provide that the company's auditors shall be disinterested persons having no other connection with the trust. They further provide that such auditors shall be elected annually and shall be duly compensated for their services. It is quite clear that there is nothing perfunctory about the auditing of British trust companies and that such audits are generally regarded as one of the best features connected with trust management.

LIMITED INVESTMENT IN DIFFERENT TYPES OF SECURITIES

Another excellent feature, and one inherent in the very character of the investment-trust form, is that of definite limitation as to type, character, and geographical placement of trust investments. As has been previously stated, such limitations are usually made by means of percentages and are also ordinarily set forth in the articles of association; but, whether expressed or implied, they constitute a universal practice on the part of trust managers for securing that diversity of risk so essential to the trust form.

[1] See Recommendations for Statutory Regulation of Investment Trusts, Albert Ottinger, Attorney-General, New York State, Appendix B, page 418.

LIMITATION AS TO SIZE OF TRUST

The protective quality of limitations as to size lies in the fact that a trust of reasonable proportions is less likely to present temptation to its managers than would one with an unusually large capital. Excessive size always gives a large fund of other peoples' money to be invested and reinvested at the manager's discretion. We have only to look back into our own history, and review the life-insurance investigation of 1905 and 1906, to realize that even men with a high reputation for probity may succumb to such a temptation. In that instance, moreover, grave errors of judgment on the part of managers terminated as disastrously toward their fiduciaries as acts of dishonesty.

ACCUMULATION OF RESERVES

It is not necessary to do more than mention this topic, because the accumulation of reserves to meet possible losses and depreciation of trust investments is one of the most essential provisions for the protection of the trust investor. It is one of the best features of the British situation that the accumulation of such reserves is practically universal.

PUBLICITY

This is a subject of peculiar interest, because at this time much more publicity is given to the affairs of investment trusts abroad than at home. While not all British investment trusts publish full and adequate lists of their entire investment holdings, yet the majority of them do publish such lists at least once a year.

In the United States to-day, no such general rule exists. While a few American investment trusts publish lists of the securities they hold, many decline to do so on the ground that such lists might prove of benefit to other trusts, creditors, and individual investors. Trust managers argue that through these lists the general investment policy of leading investment trusts would become known, and that individuals would gradually endeavor to follow the same principles in their own cases, feeling that it was unnecessary for them to buy investment-trust securities. That the reluctance of American trust managers to publish their investments is bad, goes without saying. The same reason would apply with greater force in England than in America, since investment is a more vital concern to the Englishman. Yet we do not find our British friends advancing any such reasons against

full publication of their investment holdings. Only from the widest publicity can public confidence be fully gained in a form of investment which requires the utmost trust, on the part of the investor, in the integrity and ability of the manager.

SITUATION IN GREAT BRITAIN COMPARED WITH THAT IN THE UNITED STATES

There is perhaps no feature connected with the practical administration of the investment trust in which English and American methods differ so much as in the sale of trust securities to the general public.

In England, investment trusts have been in active operation since the time of the American Civil War, and, while they have gone through several periods of depression, notably that of the Baring crisis and that caused by the Great War, nevertheless, they have been on the whole uniformly successful during a period of approximately seventy years, and their purposes and methods have become well and favorably known to British investors. The result has been that, at least in the case of established trust companies, a steady demand has arisen for their debentures, and a great demand exists at all times for their ordinary and preferred stock. The latter demand, by the way, it is usually impossible to supply, as investment-trust ownership in England is now to a large extent restricted to a comparatively small class of opulent investors, most of whom acquired their first investment-trust securities many years ago.

We therefore find that in England investment-trust securities are sold over the counter, so to speak, and that, as all the leading companies have their stocks and debentures lists on the London exchange, such selling is easy and profitable.

Let us now compare this situation with that existing in the United States to-day regarding American investment trusts. In this country, the listing of investment-trust securities upon recognized exchanges is developing slowly. There can hardly be said to be proper recognition of them as yet.

It is also true that strict compliance with stock-exchange requirements, in this regard, demanding full publicity of management, will undoubtedly react to the advantage of the investment trust as a permanent field of investment.

The investment-trust idea has not been sufficiently explained to the various Blue Sky Commissioners existing in this country. It will

be some time before the advantages of investment-trust securities, when issued under proper restrictions and in consonance with the true investment-trust form, become thoroughly understood and appreciated by these officials who are charged with the supervision of new security issues.

In the United States, the investment bankers who have been active in forming investment trusts, with the exception of a few houses which possess numerous branches in various parts of the country or large sales forces of their own, sell their trust securities by interesting other distributing houses in a selling campaign. Using such a method, they are compelled to allow their distributors a commission, which must in the end be paid by the purchaser of the trust securities, thereby increasing the cost to the purchaser and lowering the yield of his security. This disadvantage is partly met by the compensating advantage that American investment trusts pay a higher rate of return to their investors than British trusts.

There is also danger that complicated selling systems may be employed. In the case of some of the weaker companies, the use of such systems may result in a cost, to the purchaser of trust securities, considerably in excess of the amount for which any one of the underlying securities represented by the trust could be purchased in the open market.

The best method of improving the existing situation in the United States is by extensive advertising of a conservative character, and by the gradual accumulation of literature on the subject, which in the end will find its way to the general public or at least to the public's financial advisors. Only by widespread knowledge of the advantages of the investment-trust idea can we, in this country, create a situation comparable to that now existing in England, where trust securities are freely and constantly dealt in, with as much confidence and appreciation as though they were Liberty Bonds.

EFFECT OF LISTING ON RECOGNIZED EXCHANGES

We have seen that, while admitted to full listing privilege on British Exchanges, investment-trust securities to-day are only sparingly accorded similar privileges in this country. The governing committee of a reputable stock exchange cannot be blamed for moving slowly and cautiously in this regard in connection with new and untried investment companies. When, however, the investment trust applies for listing and can show that it has been formed with due

regard to the public interest and that it is backed by responsible persons, there should be no hesitation in according it full listing privileges. Undoubtedly, as time goes on, and as strong, conservative investment trusts are evolved in this country, recognition by stock-exchange listing and the facility thus afforded for trading in their securities will place the marketing of trust securities on a better basis than now exists.

UNDERWRITING AND SYNDICATE SELLINGS

The comparatively small size of the average British investment trust makes participation in underwritings undesirable, or at least confines it within narrow limits. Sometimes, of course, it is advantageous to the trust investors for the trust managers to participate in underwriting agreements relating to new and favorable promotions, but in the case of the true investment trust such participation is not ordinarily taken. An examination of Table I will disclose how few were the profits derived by the sixty-three trusts in question from underwriting participation.

A number of investment trusts acting in concert have organized an investment trust of their own, The British Trusts Association, Ltd., similar in principle to our Federal Reserve Banks. This investment trust is carried on for the benefit solely of other trusts and does not deal with individuals. Its securities are held by other investment companies, and it is said to be extremely valuable from the standpoint of ability to make large purchases of attractive securities, which it afterwards places out among its trust company members. These members are thus able to take part, as a group of trusts, in underwritings of larger size than any ordinary trust would feel able to participate in. Such an extension of the trust will probably not arise in the United States for years to come, but its organization in England indicates clearly how far along the road to stabilization of effort the British companies have progressed.[2]

THE EFFECT OF CLOSE FINANCIAL RELATIONSHIP IN PURCHASE AND SALE OF SECURITIES

In Great Britain, especially in London and Edinburgh, there exists a situation, which, although it is present under a rather different guise in New York City, does not seem to exist elsewhere in

[2] Foreign Credit Facilities in the United Kingdom, Leland Rex Robinson, Ph.D., p. 132.

the United States. There are, in fact, in England, numerous and oftentimes interlocking groups of individual capitalists who are active in various departments of business life. There is, for instance, the insurance group, which in great measure centers about Lloyds. There is the banking group and the colonial banking group. There are brokerage houses and associations of men operating in the counties, whose various fields interlock to a remarkable degree. Hence, there is a financial network extending from the capital through the empire. Undoubtedly, this network of allied and overlapping interests has a great effect upon the purchase and sale of securities and is reflected strongly in the operation of British investment trusts, both as to the sale of their own stock and debentures and as to the purchase and disposition of the various underlying securities which they acquire and hold for investment purposes. The existence of this closely knit financial organization has much to do with the acquisition by companies and individuals of the ordinary shares of successful investment trusts, and it also accounts in large measure for the underwritings which occur and for the occasional sales of underlying investments at profitable prices. It also accounts for sales of underlying securities to large stockholders, something that happens from time to time between investment-trust managers and persons who are largely interested in their ownership securities.

In America, while the same situation exists in modified form in a few centers, notably in New York City, there is no such general network of individual interests as we find abroad. Hence, in this country, we are more often compelled to look to the general public for the ultimate support of investment trusts. This support will not be obtained until the public is thoroughly informed as to the advantages of the investment trust and inspired with due confidence in the integrity and ability of investment-trust management.

CHAPTER IX

ANALYSIS OF A TYPICAL INVESTMENT AND PROMOTING TRUST OVER A SEVEN-YEAR PERIOD

(Rubber Plantations Investment Trust, Ltd., 1919–25)

There are several varieties of so-called investment companies that are considerably different from the pure investment trust, which we have been considering at length in this chapter. Some companies operate within a restricted field, as, for instance, railway or telegraph shares or the securities of electric transportation companies, and within this field are not averse to obtaining a stock control of underlying corporations and even owning and operating them outright. Some trusts combine the holding of diversified investments with the carrying on of a banking business, while others, as in the case of the one under particular consideration, actually engage in trade and subject their stockholders to the risks and vicissitudes of business enterprise.

It is easy to perceive that trusts of this type, while they may at certain times show much larger profits on their balance sheets, are, nevertheless, necessarily much less conservative than those investment companies which employ their capital funds solely for the purpose of investment and reinvestment in approved securities.

Let us take, for instance, the history of the Rubber Plantations Investment Trust, Ltd., over a seven-year period, 1919–25, inclusive, and see what really happened to the corporation during that period.

First, it should be explained that this trust is empowered by its memorandum of association to invest its funds broadly in the securities of practically any corporation at home or abroad and, in addition, to deal in personal or real property and generally to engage in any kind of business at the discretion of its directors.

In 1919 the trust had holdings of £2500 or more in thirty companies, most of which produced either rubber or tea, or a total of £615,647 14s. 10d., invested in shares, debentures, and options, and divided approximately as follows, 62½ per cent in rubber (including

rubber interplanted with coffee), 32½ per cent in tea, and 5 per cent in tobacco and other products. The geographical distribution of the cost of these investments on March 31, 1919, was as follows:

	Per Cent
Ceylon	5½
East Coast Sumatra	31½
Java	23
Malay Peninsula	20
Southern India	20
	100

In addition to its investment holdings, the trust, on March 31, 1919, had the sum of £1,550,225 16s. 0d. invested in properties owned and operated directly by it in Sumatra and Southern India, with a total acreage of 54,591 acres.

The Balance Sheet, published March 31, 1919 (p. 110), follows.

The first thing to be observed from the Balance Sheet is the effect of the War upon the corporation, which seems to have been affected much more severely than if it were a straight investment trust. There is an item showing loans from bankers amounting to £291,058 11s. 8d., secured by the deposit of shares, debentures, and war-loan certificates. In other words, the investment securities have been pledged to obtain funds to carry on the tea and rubber plantations owned by the company. We may also note that the sum invested in the trust properties is nearly three times the size of the amount invested in the trusts securities, and that as the trust is actually engaged in trade the cash in banks and in hand in London and the East is necessarily and relatively high, viz., £47,115 2s. 6d.

Turning to the Profit and Loss Account for 1919 we find an even more curious state of affairs. (P. 111.)

The foregoing statement of Profit and Loss shows a net loss on the year's working of £114,075, which, deducted from the previous year's Carry Forward of £117,375, leaves a sum of £3300 at the credit of Profit and Loss Account. In other words, there was enough accumulated profit to wipe out the enormous loss incurred in the year following the War and leave a little on the right side of the ledger. Also, the Reserve of £500,000 remained untouched.

Having used the accounts of 1919 as a starting point and acquired basic information as to the financial condition of the corporation during this critical year, the reader may find it interesting to examine

THE RUBBER PLANTATIONS INVESTMENT TRUST, LIMITED

BALANCE SHEET, 31ST MARCH, 1919

Dr.	£	s.	d.	£	s.	d.
To Capital:						
Authorized 2,000,000 Shares of £ each	2,000,000	0	0			
Issued:						
1,409,941 Shares of £ each, fully called up	1,409,941	0	0			
Less Calls in Arrear	1,807	7	4			
				1,408,133	12	8
To Option Holders—Receipts in respect of options exercised upon the Company's Shares				55,651	0	0
To Shareholders' Loan at 6 per cent per annum (NOTE—Repayable or convertible into Shares at par 6 months after the Declaration of Peace.)				265,835	0	0
To Reserve Account, per last Balance Sheet				500,000	0	0
To Temporary Loans (secured by deposit of certain of the Shares and Debentures and War Loan shown per contra)				291,058	11	8
To Sundry Creditors and Balances and Bills Payable				42,373	5	7
To Unclaimed Dividends				1,099	14	3
To Outstanding Interest on Shareholders' Loan				5,462	15	5
To Profit and Loss Account (Subject to Ned.-Indies War Profits Tax (if any).				3,300	1	5
				£2,572,914	1	0

Cr.	£	s.	d.
By Shares, Debentures and Options, at or below cost price (NOTE—There is a liability of £9925 0s. 0d. for uncalled capital upon certain of the above Shares and Debentures.)	615,647	14	10
By Properties—Expenditure on Purchase and Development (including Rents on undeveloped areas and Cash in Hand on Estates)	1,550,225	16	0
By Sundry Debtors	2,293	7	4
By Loans and Interest Accrued	310,132	0	4
By War Loan—£50,000 5 per cent, 1929–1947, at cost	47,500	0	0
By Cash at Banks and in Hand in London and in the East	47,115	2	6
	£2,572,914	1	0

GEO. CROLL,
E. L. HAMILTON, } Directors

Per pro. Harrisons & Crosfield, Limited, Secretaries
J. S. Woodward, A. C. A.

We have audited the Balance Sheet of the RUBBER PLANTATIONS INVESTMENT TRUST, LIMITED, dated the 31st March, 1919, as above set forth. We have accepted as correct the accounts rendered by the Company's Managers and Agents abroad. We have obtained all the information and explanations we have required. There are contingent liabilities in respect of Agreement to advance sums aggregating £40,236 in connection with various interests held by the Trust. The security for the Loans made by the Company is mainly represented by Agreements for Mortgage. The allocation of the expenditure on Properties is made up to the 31st December, 1918. In our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given us, and as shown by the books of the company.

4B, Frederick's Place,
Old Jewry, London, E. C. 2,
20th August, 1919

FORD, RHODES & FORD,
Chartered Accountants, } Auditors

THE RUBBER PLANTATIONS INVESTMENT TRUST, LIMITED

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31st MARCH, 1919

Dr.	£	s.	d.	Cr.	£	s.	d.
To General Expenses	7,326	8	8	By Dividends, Interest, etc.	24,161	10	9
To Agency Expenses	37	4	0	By Transfer Fees	490	12	6
To Legal Charges	37	6	8	By Balance down	85,184	19	2
To Directors' Fees	815	18	8				
To Net Loss on Produce from the Company's Estates for the year ended 31st December, 1918, after allowing for estimated value of unsold stocks	106,620	4	5				
	£114,837	2	5		£114,837	2	5
To Balance down	85,184	19	2	By Balance down	114,075	2	5
To Interest on Loans, etc.	28,890	3	3				
	£114,075	2	5		£114,075	2	5
To Balance down	114,075	2	5	By Balance from 1917–1918	117,375	3	10
To Balance to 1919–1920	3,300	1	5				
	£117,375	3	10		£117,375	3	10

at this point a table showing the assets and liabilities of this trust over the seven-year period from 1919 to 1925, inclusive.

This table is as follows:

THE RUBBER PLANTATIONS INVESTMENT TRUST, LIMITED

Condensed Balance Sheet, 1919–1925

	3/31/1919	3/31/1920	3/31/1921	12/31/1921
Assets:	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Capital Authorized	2,000,000 0 0	2,000,000 0 0	2,000,000	2,000,000
Issued	1,409,941 0 0	1,494,809 0 0	1,996,719	1,996,719
Less Calls in arrear	1,807 7 4	1,319 6 4	1,225 17 3	1,222 2 6
Option Holders	55,651			
Shareholders Loan 6 per cent	265,835	265,835	450	
Reserve Account	500,000	500,000	500,000	500,000
Temporary Loans	291,058 11 8	30,051 5 8	88,829 3 10	
Dividend Equalization Reserve				
Liabilities:				
Shares—Debentures and Options	615,647 14 10	635,702 1 6	733,135 18 4	766,772 16 11
Properties	1,550,225 16 0	1,715,636 12 5	1,833,771 14 4	1,577,599 1 5
Loans and Interest Accrued	310,132 0 4	143,277 10 3	158,258 17 5	118,803 12 0
War Loan	47,500 0 0	44,000 0 0		
Cash	47,115 2 6	26,755 17 9	19,644 3 7	26,069 0 1
Stores and Materials on Estates	.....	.....	.....	24,978 17 1
Stocks of Produce	.....	.....	.....	114,322 6 6

	12/31/1922	12/31/1923	12/31/1924	12/31/1925
Assets:	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Capital Authorized	2,000,000	2,500,000	2,500,000	2,500,000
Issued	1,997,169	2,000,000	2,000,000	2,250,000
Less Calls in arrear	1,113 7 6			
Option Holders				
Shareholders Loan 6 per cent				
Reserve Account	500,000	500,000	525,000	657,796 10 0
Temporary Loans	.....	60,000	10,500	
Dividend Equalization Reserve	.....	.....	.....	50,000
Liabilities:				
Shares—Debentures and Options	750,459 15 5	1,367,663 10 7	1,379,266 8 10	1,234,090 4 0
Properties	1,564,423 18 7	1,162,872 17 6	780,544 1 9	753,674 2 2
Loans and Interest Accrued	131,331 2 9	80,857 16 0	81,232 7 7	89,274 16 1
War Loan	89,214 4 6	99,286 8 10	250,000	876,134 0 10
Cash	31,204 6 8	5,174 10 5	8,013 11 6	57,669 18 8
Stores and Materials on Estates	23,313 17 1	13,002 12 4	13,947 11 5	59,307 11 0
Stocks of Produce	116,088 4 8	93,450 17 5	68,707 15 0	

A study of the foregoing table will show that the Rubber Plantations Investment Trust faced numerous difficulties during the years 1919, 1920, and 1921, but undoubtedly started back toward a more normal position in 1922 and continued the improvement then made

in 1923, with an astonishing increase during 1924 and 1925. For instance, we find during 1919 and 1920 a loan from shareholders, bearing 6 per cent, amounting to £265,835. This loan was almost eliminated in 1921 and does not appear again upon the Balance Sheet. We also find temporary or bankers' loans during the three critical years, and while there is a temporary loan of £60,000 in 1923, this does not seem to be a sign of corporate distress.

We also find a steady increase in securities held by the trust, with a very large increase in 1923, due to an interesting change in policy which took place in that year, namely, an evident determination on the part of the Board to make the trust, so far as possible, conform to the typical investment-trust form by selling the smaller properties owned and operated by the trust and taking in return for them shares of the purchasing companies which the trust then held as investments. This change of policy is also reflected in the values ascribed to trust properties, for we find under this item in 1922 the amount of £1,564,423 18s. 7d., while in 1923 the same item amounts to £1,162,872 27s. 2d., a very decided decrease caused by the disposal of trust properties. In 1925 this item was dropped to £753,674 2s. 2d.

We also find a steady decrease in loans and interest accrued, which is quite barometric in character; and we also find a decrease in cash in bank, which under the circumstances is probably an evidence of returning health. In 1925, however, probably because of an unusually prosperous year, the cash shows a sudden increase from £13,947 11s. 5d. in 1924 to £57,669 18s. 8d. We may also note with approval the establishment in a period of plenty (1925) of a dividend equalization reserve of £50,000. This action was coincident with an increase in dividend rate and the payment of an interim dividend of 5 per cent. As a form of dividend insurance, the idea is admirable.

The Profit and Loss account (p. 114) shows clearly the erratic character of the return upon the securities held by the trust for investment purposes over the seven-year period in question. We find that the dividends and interest received during 1919 amounted to £29,161 10s. 9d., which was just about doubled during the period of post-war inflation in 1920, the amount received during that year being £58,383 13s. With the advent of the 1920 depression, we find a drop in dividends and interest to £49,632 4s. 4d.; the full effect of the storm being felt in 1921. We find that during this year the low point of £11,020 2s. 8d. was reached (nine month period), with only a slightly better return in 1922, namely, £13,962 19s. 11d.; but in 1923 we find a real resumption and a return to better conditions reflected in the figure of

THE RUBBER PLANTATIONS INVESTMENT TRUST, LIMITED

Profit and Loss Account

	3/31/1919	3/31/1920	3/31/1921	12/31/1921*
Income:	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Dividends and Interest	29,161 10 9	58,383 13 0	49,632 4 4	11,020 2 8
Transfer Fees	490 12 6	1,150 6 3	660 12 6	
Net Gain from Co.'s Estates	.....	151,066 0 2	88 6 4	5,557 14 5
Transfer of Taxation Reserve				
Expenditures:				
General Expenses	7,326 8 8	7,558 5 9	9,436 7 4	5,869 9 1
Agency Expenses	37 4 0	33 5 5		
Legal Expenses	37 6 8			
Directors' Fees	815 18 8	800	4,232 17 6	3,247 5 2
Net Loss from Co.'s Estates	106,620 4 5			
Interest on Loans	28,890 3 3	27,256 14 6	6,252 9 10	2,863 11 4
New Issue Expenses	.....	.....	407 10 7	
Loss on Revaluation of Rice	.....	.....	42,202 3 5	
Taxation Reserve				
Amt. written off mature areas				
Bal. of Increase of Capital Expenses				

	12/31/1922	12/31/1923	12/31/1924	12/31/1925
Income:	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Dividends and Interest	13,962 19 11	36,951 16 10	68,060 7 9	204,674 12 4
Transfer Fees				
Net Gain from Co.'s Estates	91,907 11 10	170,938 17 0	210,951 6 2	154,857 15 3
Transfer of Taxation Reserve	12,900			
Expenditures				
General Expenses	6,201 17 5	6,326 12 3	6,416 15 1	6,591 11 9
Agency Expenses				
Legal Expenses				
Directors' Fees	4,000	4,000	4,000	4,000
Net Loss from Co.'s Estates				
Interest on Loans				
New Issue Expenses				
Loss on Revaluation of Rice	.....	.....	.....	1,126 9 1
Taxation Reserve	.....	13,500	34,500	40,000
Amt. written off mature areas	.....	16,600	11,500	10,250
Bal. of Increase of Capital Expenses	.....	3,897 4 9		

* 9 months from sources other than properties which are 12 months.

£36,951 16s. 10d. received in that year as dividends and interest on securities owned. Most remarkable, however, is the record of the next two years, £68,060 7s. 9d. in 1924 and £204,674 2s. 4d. in 1925. Unquestionably this was brought about by the coincidence of the Stevenson restrictive plan of rubber production and a largely increased demand for rubber, especially on the part of automobile

manufacturers in the United States. This situation directly affected this trust as its investment holdings are largely in other companies engaged in the same type of business.

We may then glance at the item of Net Gain from Company's Estates and compare it with the item of Net Loss from Company's Estates, appearing under expenditures. More than any other entries, these items indicate the tremendous swing taken by the affairs of this corporation, which within a twelve-month period changed from heavy loss to considerable profit. Thus we find that the net loss from the company's estates for 1919 amounted to £106,620 4s. 5d.; while the net gain for the succeeding year of 1920, which, it will be noted, is only complete as to returns from the company's properties and covers a period of only nine months from other sources, amounted to £151,-066 0s. 2d. Again, we find that up to March 31, 1921, a confessedly difficult year, the net gain amounted to £88 6s. 4d.; while in the last nine months of that year a sudden turn for the better resulted in the relatively large profit of £5557 14s. 5d., which was again largely increased in 1922 and 1923. We also find that the marking down of inventories, so prevalent in 1920 and 1921, is reflected in the accounts of this corporation as in 1921 we perceive a loss on revaluation of rice amounting to £42,202 3s. 5d. Again, in 1924 and 1925, we find an unprecedented increase in the company's income from its estates, the figure of £210,951 6s. 2d. in 1924 being beyond prediction.

Perhaps the astonishing recovery made by this company during a short period of time may be best comprehended by quoting briefly from the address of Mr. H. J. Welch, the Chairman, which was a part of the proceedings of the general meeting of the corporation, held May 13, 1926, as follows:

FINANCIAL POSITION REVOLUTIONIZED

From these and the other figures of the present and past balance sheets it is evident that by all the usual tests applied by business men the financial position of the Trust has been revolutionized during the past five or six years. The less desirable investments have been carefully weeded out; and the reserves have been strengthened; the liquidity of the investments is incomparably greater than, say five years ago—when so much of our capital was locked up in properties; the net average cost of our holdings in properties and shares has been reduced; the value of the total assets far exceeds the amount at which they stand in the balance sheet; the total liabilities of the Trust are now negligible, and the profits earned and the dividends paid have progressively increased.

PROSPECTS

As regards the prospects for the current year, the income from our tea estates should be approximately the same as in 1925, but the income from our other investments should be substantially more as it will include all the excellent final dividends upon our investments in tea and rubber companies which are now being declared for last year, and also the interim dividends for the current year. Irrespective, therefore, of the course of the market for tea and rubber, it seems certain that the Trust's income this year will considerably exceed that of last year. Further, there does not at present seem any probability of depression in either of the great producing industries in which we are especially interested.

In conclusion, therefore, it gives me great pleasure to be able to state the considered opinion of my colleagues and myself that from every point of view the Trust to-day is in a stronger and sounder position and that its prospects are brighter than at any previous time in its history.

The following comparative figures illustrating the growing strength of the Trust may be of interest:

	1923	1924	1925
	£	£	£
Reserve account	525,000	525,000	657,796
Dividend equalization reserve	.....	50,000	100,000
Gilt-edged securities and cash	104,460	260,733	1,047,363
Excess of valuation of investments over book cost	38,142	452,978	2,175,354
Dividend	7½%	10%	15%
Balance of profits carried forward	52,488	65,083	55,006

In making this study of the career of this trust over a seven-year period, the Directors' Reports of Statement of Accounts for each year have been carefully examined and all of the reports of the meetings of stockholders during that period have also been read. The company's records reveal a situation singularly unattractive from the standpoint of the conservative investor. It does not seem that any special difficulties arose in connection with securities held, other than the drastic revision of industrial interest returns which inevitably resulted during the period of post-war deflation. The serious problems encountered by the trust seem to have been those directly connected with that part of the trust capital invested in tea, rubber, and tobacco plantations owned and operated by the trust itself. Thus

we find each annual report dealing at length with the question of the price of tea, the demand for tea, the decrease in that demand due to the Russian Revolution and other economic causes, and the British tariff on foreign-grown teas, which naturally the trust owners criticize and deplore.

Turning to the question of rubber production, we find that this also has a direct and important bearing on the prosperity of this particular trust. We find columns of small print, in the annual reports, devoted to the actual and probable consumption of rubber by the motor industry in the United States and to the advocacy of the employment of rubber for new uses all over the world. We find that during this five-year period the Rubber Plantations Investment Trust took an active part in bringing about a restriction of rubber production in order that the price might be forced to a higher level and maintained there.

We further find that the question of taxation for war profits by the Dutch colonial authorities bulked very big, so far as the trust managers were concerned, and that over a period of several years there was a constant running fight between them and the Dutch authorities over the amount which the trust ought to pay on account of this particular tax. All of these elements are of interest to us primarily for the light which they throw upon this particular type of investment trust, namely, the so-called investing and promoting type. It would seem reasonable to deduce, from a calm review of the entire situation during the seven years in question, a firm opinion that investment trusts of this type, no matter how cleverly they may be managed, cannot be considered conservative or attractive from a purely investment standpoint, although from a speculative point of view they may offer and give greater rewards than those trusts which restrict their activities to holding and dealing in investment securities.

There is no doubt whatever, and it is freely admitted, that the seven-year period selected for study in the case of this trust was the most difficult one in its history. Such a contrast was never before displayed, and possibly never will be displayed again, in the profit and loss accounts of this corporation. Never again, in all probability, will the pendulum of corporate achievement swing so near to failure; on the other hand, it may never again, within a brief period of time, swing so far away from failure toward the goal of financial success. All of this, however, is beside the question, which is not connected with the gains and losses of this individual trust but relates entirely to the value of the type of trust under examination. From this point

of view, it is believed that this study abundantly shows how inherently speculative this form of the trust device is and must necessarily be. While there is no objection to anyone's investing in a trust of this character if the object in view is speculative profit, still, from any other standpoint, investment in such a security cannot be advised.

It should be stated, however, in all fairness to the Directors of the Rubber Plantations Investment Trust, that the corporate record of the company reveals courageous and able management in the face of economic and political difficulties of no mean order. Any criticism of the trust therefore, is directed at the scope of its activities and is not leveled at the methods of management. It is believed that under ordinary circumstances the investment-trust device is not capable of successful association with the operations of a trading or business company, and does not mix therewith any better than oil with water.

CHAPTER X

ANALYSIS OF AN UNUSUAL INVESTMENT TRUST OVER A THIRTY-SEVEN YEAR PERIOD

(The Stock Conversion and Investment Trust, Ltd., 1889–1926)

Thanks to the courtesy of Mr. W. T. Knight, Secretary of the Stock Conversion and Investment Trust, Ltd., an unusual amount of data has been placed at the disposal of the author, so that it has been possible to tabulate the main features of the financial history of this trust over a period of thirty-seven years. It is hoped that this tabulation will reveal certain facts and tendencies of somewhat general application, which will be of assistance in connection with a survey of the entire investment-trust field.

It is perhaps well at this point to present the tabulation in question together with certain comments thereon. These comments are indicated upon the table itself, by means of key letters appearing opposite each item and subsequently explained.

Let us now consider certain features connected with the financial career of this particular trust, as revealed by the table, supplemented by reports of the annual meetings of the trust and other data furnished to the author.

In the first place, it should be noted that this trust differs radically from the other investment companies which have been hitherto considered; in fact, it may be said to be *sui generis* in several particulars. Although founded in 1889, a year before the Baring failure, and at a time when the investment-trust idea was very popular and profitable in the United Kingdom, this trust, from its inception, seems to have been formed not with the idea of obtaining larger interest returns from foreign securities than could be obtained from Government loans or domestic investments, but, on the contrary, with the distinct idea and purpose of obtaining a larger interest return than that which could be secured through the purchase of British consols, by acquiring and dealing in high-class securities of British railways. Hence, from the beginning, the purpose of this trust was to invest its subscribers' money in domestic stocks and bonds, principally stocks.

TABLE

STOCK CONVERSION AND

Year Ending	Dividends: Founders'	Dividends: Annuity	Dividends: Preferred	Dividends: Ordinary	Capital	Assets £	Assets s.	Assets d.	Investments £	Investments s.	Investments d.	Loans £	Loans s.	Loans d.	Debentures %	Debentures £	Debentures s.	Debentures d.
12/31/89	....	....	....	% 10 10	199,900 ordinary shares £10 each...	353,904	19	2	325,644	4	5	45,000	0	0	....	.....	..	..
12/31/90	....	....	....	10	£1 called..... 1000 founders' shares £1 each.....	609,526	9	4	555,152	7	0	347,773	12	7	....	.....	..	..
12/31/91	....	....	....	8	.....	545,219	9	0	525,333	12	4	273,651	1	10	....	.....	..	..
12/31/92	....	....	....	4½	.....	597,590	8	4	586,944	7	7	344,478	16	4	....	.....	..	..
12/31/93	....	..	(E)	3½	.....	(C)658,336	3	0	653,892	15	3	403,706	5	0	....	796	6	11
12/31/94	....	....	....	5	.....	546,891	3	0	530,754	6	0	277,800	0	0	....	13,350	0	0
12/31/95	% 10	....	....	1 6	.....	602,370	19	4	557,308	13	2	265,000	0	0	....	52,000	0	0
12/31/96	....	....	....	7	.....	598,839	16	1	551,787	18	6	248,373	0	0	....	52,800	0	0
12/31/97	s. 10	..	% 2½	12½	.....	(I)742,416	9	9	704,588	15	9	165,000	0	0	....	52,650	0	0
12/31/98	5	..	4½	12½	.....	761,862	15	4	727,798	1	2	197,200	0	0	....	45,550	0	0
12/31/99	....	..	4½	10	.....	(J)934,980	13	4	717,884	3	8	.....	..	..	....	39,450	0	0
12/31/00	....	..	4½	(M) 7½	.....	1,225,383	4	9	1,133,462	12	4	315,000	0	0	....	2,800	0	0
12/31/01	....	..	4½	(N) 7½	.....	1,263,661	0	11	1,173,621	8	1	352,139	6	5	....	800	0	0
12/31/02	....	..	4½	5½	.....	1,364,344	16	3	1,265,137	5	2	466,261	18	3	....	.....	..	..
12/31/03	....	..	4½	4	.....	1,459,087	18	7	1,397,833	7	3	587,500	0	0	....	.....	..	..
12/31/04	....	..	4½	4	.....	1,492,552	10	4	1,445,001	4	1	554,425	0	0	4	75,759	11	0
12/31/05	....	..	4½	4	.....	1,469,336	17	1	1,431,933	14	0	529,897	10	6	4	75,759	11	0
12/31/06	....	..	4½	4	.....	1,495,901	19	4	1,458,316	6	0	571,834	4	4	4	73,060	0	0
12/31/07	....	..	4½	(P) 3½	.....	1,183,895	4	5	1,132,263	3	2	587,920	7	4	4	73,060	0	0
12/31/08	....	d. 6	4½	2½	.....	1,196,734	2	4	1,151,496	19	0	598,776	4	4	4	69,560	0	0
12/31/09	....	6	4½	2½	.....	1,148,879	16	4	1,102,846	6	3	551,276	4	4	4	69,560	0	0
12/31/10	....	6	4½	3	.....	1,279,490	0	0	1,203,343	7	11	538,776	4	4	4	69,360	0	0
12/31/11	....	6	4½	5	.....	1,271,344	12	6	1,218,916	4	2	524,188	1	4	4	69,260	0	0
12/31/12	....	6	4½	2	.....	1,317,465	4	5	1,244,471	11	9	581,640	19	2	4	69,260	0	0
12/31/13	....	..	4½	....	.....	1,345,054	13	9	1,278,383	11	7	574,685	11	11	4	95,680	0	0
8/31/14	....	6	(R) 4½ (S)	....	.....	1,362,055	8	9	1,300,192	3	5	570,173	1	11	4	99,963	0	0
8/31/15	....	..	4½ (T)	....	.....	1,266,164	19	4	1,200,591	12	8	641,844	6	8	....	101,963	0	0
8/31/16	....	..	5	....	.....	992,937	15	8	945,824	5	3	556,844	10	9	....	87,413	0	0
8/31/17	....	..	5	....	.....	989,575	14	8	943,415	1	9	560,751	10	7	....	81,160	0	0
8/31/18	....	..	5	....	.....	954,226	8	9	908,725	16	2	554,642	0	0	....	40,200	0	0
8/31/19	....	..	5	....	.....	946,286	13	0	901,294	19	10	547,863	10	11	4	38,850	0	0
8/31/20	....	..	4	....	.....	965,113	5	6	911,653	1	7	423,316	2	1	4 5½	38,750 92,182	0 10	0 0
8/31/21	....	..	....	....	.....	908,619	9	4	859,877	13	2	390,880	0	0	4 5½	37,150 88,690	0 0	0 0
8/31/22	....	..	6	....	.....	895,777	14	9	840,454	2	0	403,812	12	9	4 5½	37,150 81,700	0 0	0 0
8/31/23	..	d. 6 24 6	(U) arrears	8	.....	909,000	7	9	850,268	5	9	403,500	0	0	4 5 5½	20,050 20,779 76,900	0 13 0	0 9 0
8/31/24	..	6 24	8	6	.....	737,048	11	11	662,701	3	7	284,488	15	10	4 5 5½	14,050 18,779 72,400	0 13 0	0 9 0
8/31/25	2	10	....	8	.....	792,652	7	8	679,514	4	6	323,400	0	0	4 5½ 5	66,900 17,300		
8/31/26	....	..	3½	....	£253,226, -0s.-2d.	728,802	12	2	662,690	12	6	288,200	..	..	4 5½ 5 5½	12,850 60,950 14,300 18,670	.. 0 0 ..	.. 0 0 ..

XI

Investment Trust, Ltd.

Interest			Reserve A			Reserve B			Reserve C			Income			Salaries			Total Expenses		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
.....	..	..	.....	..	..	50,225	0	0	4,000	0	0	77,104	14	3	3021	19	2	4219	10	8
9,116	13	9	.....	..	..	50,225	0	0	(A)82	4	11	40,143	2	6	2526	3	10	4369	9	4
10,375	11	3	.....	..	..	50,225	0	0	82	4	11	31,238	13	1	3063	8	6	4339	11	7
8,230	2	6	.....	..	..	(B)47,225	0	0	82	4	11	21,422	17	7	3080	9	7	4016	13	4
13,026	4	2	.....	..	..	(D)47,225	0	0	82	4	11	24,661	7	10	3216	10	0	4505	3	1
9,836	17	11	(G)6,000	0	0	(F)37,504	7	3	.....	..	..	31,576	6	7	3248	0	0	4324	4	11
8,954	4	0	8,007	2	1	37,504	7	3	6,563	1	9	44,350	2	11	3285	0	0	4843	17	2
9,931	11	5	17,299	1	7	37,504	7	3	2,298	8	11	58,762	18	6	3959	0	0	5336	6	10
11,205	0	6	24,356	11	4	37,504	7	3	(H)12,557	3	2	74,489	4	4	5320	12	0	8418	13	11
9,879	2	0	29,691	14	8	37,504	7	3	21,722	13	11	56,425	18	5	4682	13	0	6339	4	3
8,750	16	11	.....	..	..	(K)100,809	13	8	.....	..	..	(L)53,962	13	1	4811	5	6	7330	16	3
8,497	9	5	.....	..	..	101,500	2	11	.....	..	..	65,598	2	0	5442	18	0	6930	14	0
13,122	9	3	.....	..	..	100,715	11	2	.....	..	..	74,516	2	1	5480	8	0	6885	3	6
15,431	9	7	.....	..	..	100,000	0	0	.....	..	..	58,934	17	5	5494	11	10	7164	9	8
23,380	2	7	.....	..	..	75,000	0	0	.....	..	..	57,690	17	4	5593	6	0	7993	8	5
21,351	13	2	.....	..	..	67,000	0	0	.....	..	..	60,814	0	5	5727	10	0	6683	14	7
22,476	15	5	.....	..	..	65,430	10	10	.....	..	..	64,240	12	8	5852	0	0	6729	15	3
30,809	6	4	.....	..	..	56,350	0	0	.....	..	..	64,637	1	10	5839	12	0	6719	14	8
(Q)36,294	9	1	.....	..	..	(O)15,921	7	1	.....	..	..	60,148	2	3	5909	12	0	6900	17	5
25,086	14	10	.....	..	..	15,249	11	5	.....	..	..	64,156	12	6	5815	16	0	6799	3	1
25,324	18	4	.....	..	..	14,987	3	5	.....	..	..	63,945	3	4	5663	16	0	6633	0	6
31,187	14	4	.....	..	..	14,987	3	5	.....	..	..	70,300	2	5	5649	8	6	6580	16	3
27,829	0	0	.....	..	..	20,000	0	0	.....	..	..	81,182	7	1	5835	5	8	6737	10	10
30,987	7	1	.....	..	..	20,000	0	0	.....	..	..	68,569	7	7	5575	7	4	6525	9	11
37,452	12	6	.....	..	..	19,428	12	9	.....	..	..	62,458	13	11	5515	15	7	6402	11	9
19,611	1	7	.....	..	..	19,391	4	11	.....	..	..	52,484	17	11	3726	18	11	4379	9	5
39,559	7	1	.....	..	..	18,302	18	8	.....	..	..	63,900	3	1	5471	18	5	6613	13	0
34,175	13	3	.....	..	..	43,279	14	1	.....	..	..	52,733	19	3	4884	5	3	6048	16	1
34,960	5	0	.....	..	..	38,947	8	4	.....	..	..	53,216	12	4	4870	8	1	5741	12	7
31,108	19	1	.....	..	..	34,873	19	8	.....	..	..	49,213	11	0	4809	0	10	5576	16	12
31,734	6	8	Deb. Res. 12,000 Special for 5½% Deb.	..	..	Inv. Res. 80,225	0	7	.....	..	..	50,682	3	9	5083	3	2	5964	6	3
36,503	9	4	9,470	3	11	54,500	0	0	.....	..	..	54,611	8	3	5450	10	7	6272	5	3
36,919	17	10	.....	..	..	35,815	7	10	.....	..	..	54,633	9	5	5903	13	6	6637	13	0
27,774	17	1	.....	..	..	3,383	6	11	.....	..	..	65,641	2	3	7034	2	0	8597	1	2
22,003	14	3	.....	..	..	3,277	1	3	.....	..	..	74,847	6	1	6512	9	5	7716	10	0
24,361	9	10	.....	..	..	9,250	16	6	.....	..	..	73,359	15	8	5941	10	0	7065	17	4
25,019	11	1	.....	..	..	24,979	16	2	.....	..	..	77,922	17	7	5830	11	2	6989	10	10
23,413	17	7	.....	..	..	21,871	1	10	.....	..	..	(V)53,293	2	5	5664	15	6	7686	15	8

Comments on Preceding Table

(a) C reserve £10,666 19s. 5d., reduced £10,584 14s. 6d.—amount written off investments.
(b) B reserve debited with £3000 loss on realization of stocks.
(c) Reserve liability on shares reduced to £3—instead of £8—par reduced from £10 to £5.
(d) Capital losses charged to B and C reserves—£5180 17s. 3d.
(e) Schedule of investments given.
(f) B reserve reduced by capital losses of £4622 0s. 5d.
(g) Creation of A reserve fund £6000—all for benefit of Ordinary Shareholders.
(h) C fund per 1896 report—£2298 8s. 11d.—Added by report £11,505 0s. 3d. Less losses written off—£1246 6s. 0d.—Net £12,557 3s. 2d.
(i) Recapitalization:

199,900 shares of £5 each	£999,500	
Uncalled £4 per share	799,600	
		£199,900
20,000 shares of 1s. each		1,000
Preference Stock 4½ per cent		200,000
		400,900

(j) Recapitalization:

199,900 shares of £2 each	£399,800	
Uncalled £1 per share	199,900	
		£199,900
250,882 New Ordinary Shares £1		250,882
Preference Stock 4½ per cent		200,000
23,080 New 4½ per cent Preference Shares £5		115,400
		£766,182

(k)	£	s.	d.
B reserve fund 12/31/1898	37,504	7	3
C reserve fund 12/31/1898	21,722	13	11
Added per last report	1,217	12	2
	60,444	13	4
Paid for extinction of founders' shares	59,000		
	1,444	13	4
Transferred from P. & L.	105,170	17	3
	106,615	10	7
Deduct Losses written off	5,805	16	11
New Reserve Fund created	100,809	13	8

(l) Premiums (£103,981 2s. 4d.) on Share Capital issued during year less expenses.
(m) Adversely affected by financial consequences of the War.
(n) Preference stock increased to £325.000—4½ per cent.
(o) Reduction of capital and depreciation of Investments Account:

Amount written off British Trustee and Railway Investments	£	s.	d.	Reserve Fund	£	s.	d.	£	s.	d.
	306,232	6	1	12/31/1906				56,350	0	0
				Less Reserve against General Investments	20,000	0	0			
				Annuity Shares Acc't	1,878	5	2			
				Income Tax	1,692	12	6			
				To P. & L.	13,450	1	6			
								37,020	19	2
								19,329	0	10

			Reduction of Capital:			
			12s. on 199,900 Ord. shares	119,940		
			60 per cent on £250,882 Ord. stock	150,529	4	
					270,469	4 0
			Bal. payable on conversion		16,434	1 3
	306,232	6 1			306,232	6 1

	£	s.	d.	£	s.	d.
(p) *Capital Account:*						
Subscribed Capital	707,091	8	2			
(199,900 Ordinary Shares of £1 8s. each)				279,860	0	0
Uncalled £1 per share				199,900	0	0
				79,960	0	0
Ordinary Stock				100,352	16	0
Preference Stock—4½ per cent				325,000	0	0
*Annuity Shares 450,782 of 1d. each				1,878	5	2
				507,191	1	2

(q) Over £9000 paid for interest in excess of rate of preceding 16 years.

(r) Annual Balance of Company taken on this date and date adopted for future statements.

(s) Reduction in Capital:	£	s.	d.
199,900 Ordinary Shares £1 4s. each	239,880	0	0
1£ uncalled	199,900	0	0
	39,980	0	0
Ordinary Stock	50,176	8	0
Preference Stock 6 per cent	243,750	0	0
Annuity Shares 450,782 (1d. each)	1,878	5	2
	335,784	13	2

(t) Reduction of Capital Account:

	£	s.	d.		£	s.	d.
Written off for stock losses	62,506	12	7	Reserve 8/31/1915	18,302	18	8
Reserve for Brit. Sec.	83,923	0	0	Reduction:			
Reserve for Gen'l Invest.	43,279	14	1	4s on 199,900 Shares	39,980		
				50 per cent on £100,352 1s. 6d.	50,176	8	0
				25 per cent on £325,000 Pref. 4½	81,250		
	189,709	6	8		189,709	6	8

	£	s.	d.
(u) 7½ Cum. Pref.	195,000		
450,782 Ann. shares 1d.	1,878	5	2
199,900 Ord. sh. £1 2s. 6d. (£1 uncalled)	24,987	10	0
Ordinary Stock	31,360	5	0
	253,226	0	2
Reserve Fund	82,558	13	0
	335,784	13	2

(v) Influence of railway strike discernible in reduced income of £53,293 2s. 5d. in 1926.

* Entitled to 6d. per annum prior to dividends on Ordinary Stock and Shares and were issued in respect of £270,469 4s. 5d. written off the Ordinary Capital and applied *pro tanto* to reduce the Value of Trustee and Railway Investments. Under liquidation the Shares rank as paid-up Ordinary Capital of 12s. per share.

The stock-conversion principle, on which this trust operates, is distinctive and should be understood if the transactions and general purposes of the trust are to be comprehended. It is well explained in the address of Nathaniel Spens, Esq., the Chairman, before the general meeting of the trust held on November 8, 1926. On this point Mr. Spens said:

I think you will agree that it was not unnatural on my part to make that speech, because at that time I represented, as a trustee, certainly two of the largest interests in the London and North-Western Railway; and now our consolidated trust of the London Midland and Scottish Railway represents, I believe, by far the largest holding in Ordinary stock—one forty-seventh of the whole. In that one forty-seventh, however, there are 6000 or 7000 people interested, quite apart from any interest which we may have in the trust. It is an independent institution.

The Stock Conversion Company was formed to promote conversion where a scheme of conversion seemed likely to be profitable, and our charter bears out the fact that that is our primary business. We did promote various conversion schemes. I am not going to weary you with the details of them again, as I have often given you them before, but they were conversion schemes that converted the railway companies. We saw almost all the railway companies adopting conversion schemes, more or less indicated by us, starting with the London and South-Western and ending in 1897 with the Midland Railway—that great company with which the London and North-Western Company and others are now merged.

There is an interesting fact in my memory which has a bearing upon the discussion of the principles of this company. In the year 1896, when foreign investments were not in such good repute as they are now, I had the honour of serving on a committee which was called in to consider the difficulties of a Mexican railway, of which Mr. Paget, the then Chairman of the Midland Railway, was the Chairman, and we had on that committee a very eminent accountant, Mr. Alexander Young. At that time home securities were having their day. Everything, more or less, was prospering with us here when things abroad were going wrong.

I was invited to join that committee, and I found that what had happened was that a security which had been deemed to be of a very high class had fallen into difficulties. It seemed certain of earning a large part of its interest, but it was a little uncertain whether the whole would be forthcoming, and it had fallen greatly in value.

I at once applied my principles of stock conversion. The principle of stock conversion is this: That if doubts arise as to the payment of full dividend on a security, then immediately a stock under such conditions will decline to the value of nearly what it would be had a decline in its dividend taken place. If, however, the stock is one where it is believed that only a small decline in dividend could possibly occur and it is converted into—for example, £50 carrying one-half of

the dividend and another £50 carrying the surplus—then experience shows that the prior half retains its old value and the remaining half alone has its income value at the lower current rate. Similarly, if a stock like London Midland and Scottish Ordinary has a standard income of 7½ per cent, valued at 75, and the North Eastern Railway has a similar standard revenue, valued as it is divided:

£100 Four per Cent Second Preference stock at 60 per cent equals	£60
£50 Five per Cent Preferred Ordinary stock at 50 per cent equals	25
£40 Deferred Ordinary stock at 18 per cent equals	7.2
Altogether	£92.2

One can immediately attribute the difference to the failure of the former company to adjust its capital to the converted form adopted by the North-Eastern. That is the principle of stock conversion.

Another feature which differentiates this trust from other investment companies is the clear purpose of the management to deal in and out of British railway securities, with the idea of obtaining as large a profit as possible without sacrificing a conservative attitude, and to use a considerable part of this profit for dividend purposes instead of applying such profit solely to the increase of its reserve funds, as is and has been the policy of the majority of British investment trusts. True it is that for long periods, during a number of war eras, the trust management has been unable to consummate dealings of the kind above referred to, and has been compelled to rely for its income almost entirely upon the interest paid to it upon its investments; but, nevertheless, the general policy of indulging in such dealings does not appear ever to have been changed.

Still another curious point of difference between this trust and the great majority of British investment companies is the policy pursued by it with relation to temporary bank loans. Naturally, the above-mentioned policy of sale and disposal for profit of British rails involved a constant supply of ready cash, and, had this trust followed the usual practice of other trusts in this regard, it would have issued one or more series of debentures early in its career and obtained its working capital in this way. However, such a policy did not find favor in the eyes of the managers of this company, and instead of doing this they persisted for some thirty years in obtaining large sums of money from banks and trust companies, oftentimes paying therefor large rates of interest and on occasion bringing down upon their heads pointed criticisms from some of their own shareholders.

It may be noted from the table that comparatively little use was made of debenture issues by the trust managers, the largest amount in any one year being £130,000 in 1920 and the debenture issues remaining at about that figure to the end of the tabulation in 1924. The theory of the managers seems to have been that they could do better for the ownership interest of this trust by means of bank loans than by the sale of debentures to the general public. It is to be noted in this connection that the column disclosing Loans varies considerably but always seems to be high in relation to the total amount of the company's capital. Thus, in 1893 we find loans amounting to £403,706 5s. 0d.; in 1897, £165,000; in 1908, £598,776 4s. 4d.; in 1915, £641,844 6s. 8d. In 1921, we note a sharp reduction to £390,880; while in 1924 we find a further reduction to £284,488 15s. 10d.

Careful study of this trust's record and the perusal of a large number of addresses made by its chairmen at various annual meetings leads one to detect a singular note of pessimism as to capital investment which is echoed and re-echoed in numerous other reports made to the shareholders of this corporation by its managers during the greater part of its career.

The facts seem to be that this particular trust was constituted during the fag-end of a prosperous period, when the interest rate on British consols had dropped to such a point that it was believed to be entirely possible to obtain gilt-edged British railroad investments, of a class comparable, as far as safety was concerned, with British Government loans, and, by combining their interest returns with legitimate profits which could be made by dealing in and out of them, to obtain an average rate of return considerably in excess of the interest rate on Government securities. It is evident, however, that the promoters of this trust did not and could not look far enough into the future to perceive the various periods of panic and depression and the rather numerous wars in which Great Britain was to be involved during the first thirty-five years of the company's existence; neither could they foretell calamities such as the recent general strike, which appears to be the latest burden the trust has had to bear.

Rising to a high point of success during 1897 and 1898, although indubitably affected in an adverse manner by the American panic of 1893, this trust was met in 1899 and the years immediately subsequent thereto by the severe financial stress which Great Britain felt in connection with the Boer War. Thereafter there is a constant complaint of capital depreciation until we come to the critical period of the Great War, when all preceding difficulties are greatly intensi-

fied. The trust managers maintain in many reports that British credit has suffered a violent readjustment since the days when this trust began business; and, for whatever reason or reasons one may choose to assign, the fact would seem to be that after the Boer War there came about a capital shrinkage directly related to the fall in the value of British consols and amounting at times to as much as 40 per cent. Time and again the trust managers pointed out that this loss in capital value did not, either in theory or in practice, result in drastic income losses, but it did inevitably affect the balance sheet of the trust, and, in theory at least, its capitalization.

If there is one lesson of general application which may be drawn from this interesting table, it is the absolute certainty that war conditions, and in a lesser degree general business depressions of world-wide significance, are bound to affect an investment trust in an adverse manner. It is true that in this particular instance we have many special factors to consider, as, for instance, the lack of general diversification, both as to character and geographical distribution, of the trust's securities. Nevertheless, the tabulation clearly shows that the remark of the wise old woman that "war never did anybody any good and has done lots of people a great deal of harm" is just as true economically and from the standpoint of finance as it is upon the purely human side.

There are, furthermore, a number of interesting facts connected with the development and financial operation of this trust which may be readily gleaned by a perusal of this table. Thus, we may note that the trust capital has been changed six separate and distinct times: in 1897, 1899, 1907, 1915, 1916, and 1923. We may note that founders' shares were eliminated in 1899 by means of a conversion of three ordinary shares to one founders' share; furthermore, it is interesting to perceive that in 1907 annuity shares were issued providing for 6d. per annum preferred dividend over ordinary shares. These shares when liquidated rank as paid-up ordinary capital at 12s. per share and constitute an unusual piece of financial machinery apparently intended to alleviate capital depression.

Assets show a gain traceable to recapitalization up to 1900, then remain fairly constant to 1915, at which time a reduction in capitalization, made necessary by conditions accompanying the Great War, cuts the capital down; and further recapitalization in 1922 brings it to a point where it is further reduced but still represents a gross gain of approximately 100 per cent over the original trust capital of 1889.

Turning to the columns which represent the reserve funds of the trust, we find that these are a trifle complicated, Reserve C being an investment reserve, later changing to Reserve B, and B and C combined being used to absorb capital losses in 1893. Reserve A, created in 1894 for the benefit of ordinary shareholders, was merged into Reserve B in 1899, and after that date Reserve B became the general reserve fund. This reserve varied very greatly with the fluctuations of the trust's business and in response to general economic conditions with which it had to deal, and these fluctuations have continued from 1899 to date. It may be noted that in 1907 this reserve was suddenly drastically reduced to £15,921 7s. 1d., probably as the result of the American panic during that year, and from that point on it continued to fluctuate in the neighborhood of £20,000 until 1915 when it was £18,302 18s. 8d. Following a change of capitalization in that year, this reserve rose to £43,279. In 1924 the general reserve had risen to £9250 15s. 6d., and it is probable that if the company continues its present policy and runs into no more bad wars or panics for some time to come, this reserve will stop its wide fluctuations and settle down to a period of normal accretions.

We may also note that the income of the trust, while not as variable during the later and more dangerous period as one would suppose that it would be, nevertheless shows great fluctuations during the early years.

The column devoted to salaries reveals a fairly consistent effort to keep expenses within bounds. Beginning with £3021 19s. 2d. in 1899, the salary account reached £5442 18s. 0d. in 1900, and fluctuated but little thereafter until 1921, at which time it was £5903 13s. 6d. This figure was considerably increased in 1922, but the last report in 1924 shows that salaries at that time were £5941 10s.

The ratio of total expenses to income has varied considerably, and, as it covers a thirty-seven year period, will repay examination, viz.:

RATIO OF TOTAL EXPENSES TO INCOME—STOCK CONVERSION AND INVESTMENT TRUST, LTD.

	Per Cent		Per Cent		Per Cent		Per Cent		Per Cent
1889	5.6	1897	11.3	1905	10.5	1913	10.2	1920	11.5
1890	10.9	1898	11.2	1906	10.4	1914	8.3	1921	12.1
1891	13.9	1899	13.4	1907	11.4	1915	10.4	1922	13.1
1892	18.8	1900	10.6	1908	10.6	1916	11.5	1923	10.3
1893	18.3	1901	9.2	1909	10.4	1917	10.8	1924	9.6
1894	13.7	1902	12.2	1910	9.4	1918	11.3	1925	8.9
1895	10.9	1903	13.9	1911	8.3	1919	11.7	1926	14.4
1896	9.1	1904	11.0	1912	9.6				

Let us now examine what is in many ways one of the most interesting features of this company's financial history, namely, its dividend record. We shall see that approximately the only interests much considered were those of the preference and ordinary shareholders, or, to put it briefly, the ownership interest of the trust. Debentures never formed an important part of the financial scheme of this company. With this in mind, we may note that preference dividends remained fairly constant at 4½ per cent, showing a tendency to increase since 1915 on a recapitalization.

Dividends on ordinary shares start off at 2 per cent in 1889, increasing sharply to 4½ per cent in 1892, increasing again to 12½ per cent in 1898, then decreasing gradually to 2 per cent in 1912. They are then eliminated altogether as the result of the Great War until 1922, when they amount to 6 per cent. As a result of a recapitalization they rise to 8 per cent in 1923 and become 6 per cent in 1924.

It can hardly be claimed that this company has been a successful investment trust. This failure to attain its business ambition may be explained without much difficulty; and, whatever we may think of the soundness of some of the policies pursued, the devotion and business acumen of the trust managers are clearly evidenced by the manner in which the company has managed to weather numerous severe financial gales. However, as has just been said, the trust on its past record cannot be considered successful, although it now seems as though it might readily become successful in the not far distant future.

We can see that the interest factor is largely responsible for the failure of the company to show a consistent gain. The large loans necessary in the years enumerated here were all secured at unduly high rates of interest. For instance, the interest paid in 1893 amounted to £13,026; in 1897, to £11,205; in 1908, to £25,086; in 1915, to £39,559; in 1921, to £36,919; and in 1924, to £24,361.

We may also note that investments fluctuate directly with assets, and that assets, income, and expenses fluctuate with distinct relation to the periodicity of panics and war conditions.

In conclusion, we may ask ourselves several pertinent and interesting questions as the result of our study of the life history of this particular corporation. What would have been the result if there had been a wider distribution of risk, obtained by making investments abroad as well as at home and by failing to confine the investments made to a limited part of the field represented by railway securities?

What would have been the result if the policy of trading in and out of securities for purposes of gain had either been modified or not indulged in at all? What would have been the result if, in pursuance of a modified policy of this character, all profits so obtained had been religiously added to the trust's reserve? What would have been the result if the usual custom of obtaining working capital through the issue of debentures had been adhered to, and the necessity of large bank loans for current needs had been obviated, with a resultant cessation in bankers' demands for a high interest return?

As the record stands, the author does not intend to insinuate that the Stock Conversion and Investment Trust is an example of a company that has been improperly or unskillfully conducted over a considerable period of time, because he distinctly does not believe this to be the case. The record does show, however, certain fundamental differences between this trust and the usual British investment company, which, in this particular instance, do not appear to have worked advantageously so far as the interest of the subscribers is concerned. Of these adverse factors it may again be emphasized that the most important is lack of diversity in the investments purchased, and that the next in importance is the policy of dealing in railway securities for general profit, with its subordinate policy of large temporary bank loans instead of debenture issues. Nevertheless, the history of the Stock Conversion and Investment Trust is of great interest and reveals definitely and clearly the unwavering courage and tenacity of purpose which almost invariably seem to characterize the managers of British investment trusts.

CHAPTER XI

DEVELOPMENT OF THE INVESTMENT TRUST IN THE UNITED STATES

The outstanding principles of expert management and diversification are by no means novel in American finance, but their application through the medium of the investment trust is of quite recent origin. While not actually an investment trust, the United States Mortgage Company, organized in 1871 under the laws of the State of New York and still in active existence, was from its very inception an interesting forerunner and to some extent a prototype of the investing companies of the present day. This company was organized at the time when real estate mortgages were regarded as one of the principal avenues for the investment of capital. It was without banking or trust powers, being purely a mortgage company, its operations consisting in the loan of funds in western and southern cities, the deposit of mortgages securing such loans with an independent trustee, and the issue of its own long-term obligations against them.

It will readily be seen that, in essence, such a plan of operations thoroughly coincides with the modern theory of the investment trust; and it is somewhat surprising that for many years there was very little imitation of the methods of this corporation, nor do they seem to have been extended to include similar treatment of other investment securities, such as stock and bonds. The underlying reason for this failure to adopt the investment-trust theory probably lies in the fact that since the American Civil War another system for the investment of funds has been instituted and developed in the United States.

The investment banker is peculiarly a product of this continent. From the great international houses of issue, such as J. P. Morgan and Company, and Kuhn, Loeb, and Company, situated in the City of New York, down to the one-man organization in a town of five thousand inhabitants, we have had a steadily increasing group of

corporations, partnerships, and individuals, which, as a basic part of investment-banking service, have undoubtedly endeavored to give their clients the benefit of their best powers of management and, so far as possible, have also endeavored to diversify their clients' holdings in order to spread investment risk. That these functions have been imperfectly performed, at best, will be shown in another part of this book. The fact that a system which had good management and diversification as its objectives did exist in this country for many years past has undoubtedly prevented the adoption of the investment trust as a part of our financial machinery until a comparatively recent date.

Position of the United States before the Great War.—In order to understand how investment trusts came to be employed in this country, we should give some thought to the financial history of the United States and note the great changes which have taken place at various times during the century and a half of our national life.

When the Constitution was adopted, this country consisted of thirteen separate commonwealths, differing among themselves in many ways, spread thinly along the Atlantic seaboard, confined politically and economically to the coastal plain, and effectively hemmed in by the Appalachian Mountains. Therefore, during the first fifty years of our history we looked to Europe, and, while we began to manufacture goods to a limited extent during and after the War of 1812, we were perhaps best known in the world of business because of the energy with which we entered into the shipping trade. The literature of those days tells us that the white sails of American clipper ships were frequently seen on all the seven seas.

With the building of post roads, the digging of great canals, and, above all, the founding of the early railroad systems, the energies of American business men were turned westward; and at last, conquering the eastern mountains, the nation turned whole-heartedly toward the winning of the West. From then onward until the end of the century, we find that American business enterprise, American brains, and American initiative were largely devoted to the development of the enormous natural resources of that great plateau which spreads from the Appalachians to the Rockies, deeply gashed by the far-flowing waters of the Mississippi.

The point in which we are chiefly interested is that this subjugation of the western country had to be financed. There was obviously not enough money in our young land to accomplish such a purpose. As a result we became one of the principal debtor nations

of the world. This was accomplished with greater ease because, after the Napoleonic Wars, a reconstructed Europe sought an investment outlet where, with somewhat greater risk, a decidedly larger investment yield might be obtained. In a general way, this situation continued from the early thirties down to the Spanish War. While it is true that the acquisition of the Philippines and Porto Rico and the establishment of a protectorate over Cuba did not really alter our position as a debtor nation, nevertheless, these events made us a power with world-wide interests, whereas prior to that time we had been a great, young, isolated Republic, intent for many years upon the development of our internal resources. Our developmental policy had been steadily pursued with only one great break—that caused by our Civil War; and the resumption of activity shortly thereafter, with its feverish intensity and remarkable results, did much to atone for the stagnation caused by four years of conflict.[1]

Position of the United States at the Time of the War.—We find, therefore, that in 1914 the United States was the greatest debtor nation in the world while Great Britain and France were the two leading creditor nations. Then the War came. Overnight, European production ceased, and simultaneously there arose abroad an unexampled demand for raw materials and manufactured goods to be devoted to war purposes, while the United States loomed up as the one great productive nation of the earth that might conceivably be able to meet the needs of war-torn Europe. Fifty years before, we could not have filled the orders we received; twenty years before, it is doubtful if we could have done so; ten years before, perhaps; but in 1914 America was like a strong boy, just emerging into manhood, who suspects his power but is by no means certain of it until in some manly contest he is suddenly compelled to put it to the test.

The first thing that happened was that Europe, needing our goods and materials and, above all, a large amount of credit, was obliged to buy from us on a basis which would be satisfactory to us. This meant that the easiest method for our foreign friends to pursue was to surrender the greater part of their American investments as quickly as they could arrange to do so. Accordingly, during the War, foreign nations, with the coöperation of their individual nationals, settled their debts to the United States, incurred through the purchase of goods and raw materials, in approximately the following manner:

[1] America's Outlook on International Finance, E. H. H. Simmons, President, New York Stock Exchange, September 23, 1926.

1. Export of gold to the United States	$1,029,000,000
2. American securities sold back to the United States by foreigners	2,000,000,000
3. Foreign securities (railroads, industrials, municipals, etc.) sold to Americans	1,520,000,000
4. Loans by the United States Government to Allied and Associated Powers	7,319,500,000 [2]

The net result of the above transactions was that we bought back from Europe a considerable part of our own securities which were previously held abroad, acquired for the first time a billion and a half of foreign securities, and loaned the European nations more than seven billions of dollars, afterwards increasing this amount very considerably. Furthermore, the amount of American securities resold to us increased until, according to the report of the Controller of the Currency for 1919, it amounted to between four and five billions of dollars. As the total amount of American securities held abroad never exceeded six billions, the final result showed that we had practically wiped out our debt to the European nations and in its place had loaned them several billions more than we had ever owed them.

Meanwhile, from the very beginning of the War, the balance of trade had swung tremendously in favor of the United States. By the end of 1918 the excess of exports over imports amounted to $11,800,000,000,[3] the greater part of which was settled by the use of credit, the amount of free gold in the world having been, from the beginning of the situation, pitifully inadequate to meet the sudden and unexampled stress of the war crisis. It is well to note at this point that the Government of the United States was the great intermediary between our own nationals and foreign borrowers. Before the United States entered the War, J. P. Morgan and Company, acting as fiscal agent for the Allies, also played an important rôle in mobilizing American funds for the purchase of Anglo-French obligations, subsequently assisting in the expenditure of these large amounts of money for the purchase, from American merchants and business men, of various goods and materials which the Allied Nations so urgently required. Thus we should realize that by November 11, 1918, the date of the Armistice, the position of the United States had been utterly reversed. There is no doubt in the minds of unprejudiced men, who are aware of the great resources of our country and the

[2] The figures are taken from "Foreign Expansion of American Banks," by Clyde William Phelps, p. 119.

[3] Harvard Review of Economics Statistics, 1919, p. 235.

nervous energy of our people, that within a reasonable period of years the United States, even under conditions of profound peace, would have reversed its position and become one of the creditor nations of the world; but the event was unquestionably hastened by perhaps a score of years through the unprecedented situation brought about by the Great War.

After the Armistice, as everyone knows, there was a period of great tension, and many theories were entertained about the condition of affairs, which had never existed before. From the moralists, who believed the world was about to become Utopian, to the pseudo-economists who thought that the world could continue indefinitely to purchase goods in ever-increasing quantities solely upon credit, we were afflicted with a large number of persons whose ideas were not founded in fact and whose theories could not bear the test of events. The result was the severe depression of the year 1920. The financial and economic era in which we now find ourselves really had its genesis in the days of recovery from this comparatively recent panic. Immediately after the close of the War, the Continental nations were anxious to purchase a large amount of materials and goods from us, for the general purpose of reconstruction, but such purchase could be financed only on the basis of long-term credits. It was obvious that Americans would not at that time accept, in payment for what they had to sell, the obligations of foreign governments or individuals.[4] This situation brought about the passage, on December 24, 1919, of the Edge Act, a piece of legislation which adopted the investment-trust theory with regard to the purchase of our goods by foreigners. One part of the Act provided for the issue of securities, by a corporation formed under it, in an amount not to exceed ten times the corporate capital; and these securities, like those issued under the ordinary collateral indenture, were to be secured by the obligations of the foreigners who were purchasing goods through the corporation in the United States. It was believed that while American investors would not buy foreign securities they would buy the securities of a corporation legally founded by this Government, although these securities were collateraled by foreign stocks and bonds. Thus the theory of the investment trust was first introduced on a large scale into America, undoubtedly giving to American financiers the idea which within a few years resulted in the formation of numerous other investment trusts. The curious thing about the situation, however, is that,

[4] American Foreign Investment, Robert W. Dunn, p. 4.

as a piece of constructive legislation, the Edge Act has been a decided failure. Very possibly it might have succeeded better had it not been adopted just before the 1920 depression; and undoubtedly its immediate effect was further complicated by the discussions over German reparations and the repayment to America of foreign national indebtedness, which ensued shortly after it was passed. No matter, however, how we may seek to account for the lack of success which has attended this legislation, the fact remains that only a very few Edge Act corporations have ever been formed, and up to the present time none of them has been very successful.[5]

[5] Edge Law Corporation.—The War Finance Corporation was considered as an expedient for the transition period only. The law provided for the cessation of its activity one year after the proclamation of peace. However, the function of the War Finance Corporation was to be exercised in the post-war period by private initiative under Sec. 2742, the so-called Edge Law, which authorized Banking Corporations to do a foreign Banking business.

The Edge Law, approved December 24, 1919, is an Amendment to the Federal Reserve Act. It authorized corporations to be organized for the purpose of engaging in international financial operations, either directly in a dependency or insular possession of the United States or through the agency or control of local institutions in foreign countries. Such corporations are put under the control of the Federal Reserve Board.

In addition to a wide variety of Banking powers such as the power to purchase, sell, discount and negotiate with or without endorsement, notes, drafts, checks, bills of exchange, acceptances and evidences of indebtedness, and to purchase and sell securities, Edge Law corporations may issue debentures, bonds, and promissory notes but not exceeding ten times their capital stock and surplus.

Furthermore, such corporations have the power, with the consent of the Federal Reserve Board, to purchase and hold stock or other certificates of ownership in any other corporation not transacting any business in the United States, except such as may be incidental to its international foreign business.

The First Federal Foreign Banking Corporation of New York was organized under the Edge Law, shortly after its passage. The sharp decline in the exchanges in 1919 and in 1920 delayed the formation of other similar corporations.

Furthermore, the suspension of the War Finance Corporation in the spring of 1920 caused the abandonment of plans for the organization of similar additional companies, for these expected to obtain loans from the War Finance Corporation if conditions in the investment market should make it difficult for them to obtain funds from the public. The sharp decline in prices toward the end of 1920 created a strong demand throughout the country that the bankers give some relief. In response to this pressure the American Bankers' Association projected the Foreign Trade Financing Corporation with a capital of one hundred million dollars. The Cotton Planters, who were very severely affected by the decline in prices, likewise organized on December 29, 1920, the Federal International Banking Corporation with a capital of seven million dollars. The

Position of the United States after the War.—The depression of 1920 really forms a part of the war period, so that it is not until 1921 and 1922 that we find ourselves in that period of reconstruction which is still in process. Certain policies begun during the war period were continued into the reconstruction era, particularly that of making loans to Allied countries, which finally came to a halt not much short of twelve billion dollars; but, in addition to governmental loans, the tendency was toward a fairly steady increase in foreign loans made by American nationals. Thus we find that in 1919 foreign loans amounted to $670,000,000, and, after a slight recession in 1920 and 1921, they grew to $846,000,000 in 1922, and in 1925 amounted to $1,326,900,000. This would seem to show very clearly that the export of American capital abroad is likely to be a permanent policy of our reconstruction era, and there is little doubt that, with the alleviation of the factors which have been holding back American capital from foreign shores, there will be a steady yearly addition to the amount of American money invested in other lands, especially in Europe, which is steadily rebuilding its devastated provinces and regaining its productive power. The Treaty of Locarno, the first practical assurance of a universal desire for Continental peace, did more to encourage the export of American funds than any amount of individual initiative could possibly have done; and, while there is always a chance of political complications which will stop the outflow of American capital, nevertheless, we can only judge from the knowledge in our possession, and it looks to-day as though foreign loans would, for a long time to come, play a prominent part in American finance.[6]

Connection of Investment Trusts with the Export of American Capital.—It would be incorrect to say that the investment trust had become established in the United States for the purpose of permitting our nationals to lend their money abroad with facility and confidence; but it would be equally inaccurate to claim that the increasing tendency to export American capital to foreign shores had not played a part, and a very important one, in the establishment of investment

former company never was organized. The latter was not called to active functioning owing to the sharp rise in cotton prices in the fall of 1921.—International Finance and its Reorganization, Elisha M. Friedman, E. P. Dutton & Co., 1922, p. 368.

[6] The Foreign Expansion of American Banks, Clyde W. Phelps, Chapter VIII, American Foreign Trade Since 1914, p. 123. Also, America Comes of Age, André Siegfried, Chapter XVI, Foreign Loans, p. 215 *et seq.*

trusts as a cog of our financial machinery. American financiers are quick to seize upon a new idea and to develop its potentialities with rapidity and skill, oftentimes without paying much attention to the original purpose which brought it into being. Thus, after the passage of the Edge Act, it was not long before investment trusts were formed in America not merely for the purpose of enabling our citizens to invest their money with reasonable safety in foreign securities, but also in order that our people might, through this investment medium, obtain the benefit of expert management and diversified spread of risk in connection with domestic investments as well as those in foreign lands.

The first American investment trust seems to have been the Over-Seas Security Corporation, which was organized in February, 1920, with a capitalization of $2,000,000, consisting of 2000 shares of common stock of $1000 par value and 51 shares of founders' stock of no par value. This trust was dissolved in 1923 for reasons which did not in any way affect its solvency or spell failure in connection with its career. As a matter of fact, upon dissolution the stockholders received a profit as a result of their investments in the securities of the company.[7]

The International Securities Trust of America, which has been succeeded by the International Securities Corporation, which is to-day the largest investment trust in the United States, is also one of the oldest organizations of the kind in this country. It was organized in 1920 as a so-called Massachusetts trust, and was reorganized in 1923 and again in 1927. It is true that a few companies, like the First Investment Trust of Concord, New Hampshire, which was organized in 1916, and the American Foreign Securities Company, organized in New York during the same year, were early pioneers and show that even before the United States entered the War the investment-trust theory had crossed the Atlantic and was being utilized in a small way in this country. We find, however, that there was relatively little activity in the organization of American investment trusts until the end of 1923 when our reconstruction era really got under way.

About this time we find that a number of important trusts were organized, as, for instance: the Bond Investment Trust, January, 1923; American Super-power Corporation, October, 1923; Electric Investors, Inc., September, 1924; Financial Investment Company of

[7] Investment Trust Organization and Management, Leland Rex Robinson, Chapter XIII, American Financing Companies, p. 254 *et seq.*

New York, Ltd., December, 1924; Investment Managers Company, December, 1924; Nation-Wide Securities Company of Denver, Colo., December, 1924; North American Utilities Securities Corporation, December, 1924; and then, in 1925, Bank Stocks Corporation (now in liquidation), Joint Stock Bond and Share Company, National Food Products Corporation, New England Investment Trust, Inc., North American Investment Corporation, Swedish-American Investment Corporation; and, even more recently, European Shares, Inc. (now in liquidation), German Credit and Investment Corporation, American Founders Trust, Second International Securities Corporation, and First Federal Foreign Investment Trust.

It will thus be seen that the investment trust as a piece of financial machinery really had its start in this country during our war period, suffered a temporary eclipse from 1920 to 1924 as a result of depressed business conditions and European political unrest, and then took a new start, as it were, from 1924 up to the present time, and that it has been applied not merely to companies dealing primarily or entirely in foreign securities, but also to companies dealing primarily or entirely with domestic issues. It has thus been proved conclusively that the investment trust is not a financial machine to be devoted exclusively to the export of American capital abroad. Because of its objectives, which are universal, it should have, and does have, a much broader application and is as useful for the acquisition of stocks and bonds in the United States as it is for the acquisition of corporate securities or municipal loans in Holland, Belgium, or Czecho-Slovakia.

The development of investment trusts in this country is interesting and will be discussed in much more detail in subsequent chapters of this book. It may suffice at this point to say that their development has not been merely along conventional and established lines. True it is that perhaps the greatest influence in the formation of American investment trusts has been the long-established and standardized form of British investing company; but there are many reasons why American financiers have not been content with imitating the British investment trust and letting it go at that. The British trust is founded upon the theory that complete confidence in the trust management must be assumed, and that, if such confidence exists, the widest powers of reinvestment and substitution of securities should be granted to those in control of the organization. This is all very well in Great Britain, where seventy years of experience and a considerable number of mistakes, now happily things of the past, have brought

investment trusts as a whole into good repute, established confidence in their managers, and diminished to a minimum any sales resistance connected with the purchase of their securities.

In the United States, however, the recent formation of Blue Sky Commissions in almost every state of the Union is indicative of the fear of management which, with good cause, exists in the minds of many American investors. As a result of this fear, one of the first variations of the investment trust which occurred in this country was the invention of the so-called bankers' share trust, in which, as will subsequently be explained, limited diversification exists but freedom of management is practically and purposely eliminated. Another kind of trust, not so original as the bankers' share companies, and, indeed, analogous to many British investment organizations, is the so-called financing company, used especially in connection with foreign securities or with investments restricted to a particular field of industry. Here the trust organization has considerable freedom of management, but diversification is limited because there is an effort either to control underlying companies whose securities are bought or at least to obtain relatively large holdings in them.

Furthermore, we find in America another form of trust which we do not find abroad, namely, what we may call the investment-fund trust. Of this type, the Investment Managers Company of New York is perhaps the largest and best example. Here the securities sold to the public are not issued by the trust itself but are merely rights of participation against a number of investments purchased with the money of the subscribers and pooled in the hands of a trustee. The function of the trust management is not to own the securities themselves, for they belong directly to the subscribers, but to manage the investment and reinvestment of the securities for a fixed compensation. This is an interesting variation of investment-trust theory and a real contribution made by Americans to investment-trust development.

Finally, we have here, as abroad, an increasingly large number of investment trusts which essentially resemble the British trust form although oftentimes differing from it in details. Of these companies, the most prominent, and perhaps the oldest, is the International Securities Corporation of New York; but there are many others, a considerable number of them having just been mentioned, which are formed upon the same general theory.

The formation of investment trusts in the United States since 1924 has been remarkably rapid, and they now constitute a financial fad.

This, in a sense, is unfortunate, because in all probability a good many of them will be liquidated in the near future. Already some of the earliest and most widely advertised bankers' share companies have been disbanded,[8] and some trusts of other types are pretty sure to share the same fate. It is believed, however, that, since the investment trust is founded on worthy and ancient principles, namely, management and diversification, it will certainly survive; and it is further believed that, even to-day, the American investment trust is gradually becoming standardized along more diverse lines than exist, let us say, in Great Britain, and that it will in the course of a few years attain a permanent and honorable place in the general scheme of American finance.

The progress of the investment trust in the United States has not been without difficulties, some of them serious. In the first place, it was and is a new idea to American investors and therefore meets a greater and more determined sales resistance in this country than can be imagined abroad where for years it has been well and favorably known. In the second place, it has been adopted by many and various types of financiers, often without sufficient knowledge of its history and possibilities to enable them to construct efficient and well-guarded investment companies; and it has also in some cases been featured in a rapid-fire manner by various houses of issue and sold by their salesmen with an idea of wide distribution to be obtained as rapidly as possible and apparently without much thought as to how the organization should be continued successfully over a long period of years.

It was undoubtedly this hasty and, to a considerable extent, unsteady adoption of the investment trust as a new scheme for attracting

[8] Among the earliest banking-share corporations were United American Chain Stores, United American Electric Companies, United American Railways, and United Bankers Oil Company. The first three of these companies were organized under the auspices of Bonner Brooks and Company, Investment Bankers of New York City, while Throckmorton and Company were interested in the original security offerings of the United Bankers Oil Company. These companies, the author is informed, were terminated as investment enterprises during the summer of 1926. In explanation of such action the author received a letter from one of the organizers of the first three companies mentioned, which read in part as follows: "About one year ago in our best judgment when the market appeared to be at a rather high level and inasmuch as all of these shares were selling at a considerable premium above their original offering price, we deemed it good policy to retire the same by call. I might say in passing that this action was also prompted by the fact that while these shares were extremely attractive and profitable to the investors, the operation by ourselves showed little, if any, profit."

capital which caused the Governing Committee of the New York Stock Exchange on July 24, 1924, to adopt the following resolution:

Resolved that participation by members of exchange or stock exchange firms in formation or management of investment trust corporations or similar organizations which in the opinion of the Governing Committee involve features which do not properly protect the interest of investors therein may be held to be an act detrimental to the interests of the Exchange.

This resolution was admittedly an unusual exercise of authority on the part of the Governing Committee, and at once an active discussion took place as to the wisdom of its passage. In this connection an editorial appeared in the *Wall Street Journal* for July 30, 1924, from which it seems well to quote, viz.:

Governors of the Stock Exchange acted wisely in giving members a timely warning to watch their steps in the promotion of so-called investment trust issues. No reflection was made or intended upon such enterprises as a class. But the governors evidently had in mind certain difficulties in the way of adequately safeguarding the interests of small investors who may be induced to buy shares issued against a group of stocks deposited as collateral.

Broadly speaking, the principle of diversifying one's investments to minimize risk is sound and the effort to make diversification easier for investors of small means is praiseworthy. It has been greatly and deservedly successful in England. With diversification, however, as with any investment other than the most restricted, goes the necessity of watching and studying investments, in the light of changing business conditions and the fortunes of the individual enterprises. Anyone who is unwilling or unable to do this should confine himself to the highest class of bonds.

Such observation takes on the character of business management and in a sense the stockholders are the managers of a corporation. It is in just this point of management that many of the investment trusts recently organized in this country are weak. The pledged stocks on which the so-called "bankers' shares" are founded are necessarily in the hands of a trustee. Both by the general laws and by the specific deed of trust, the trustee is more or less prevented from exercising the functions of management, which include taking business risks at the right time and in the right direction.

To what extent a corporate trustee of such an estate would act aggressively in protection of the interests of the owners thereof, as for example, to bring about a change in the management of one of the corporations in which the estate was a stockholder, is a question.

Something may also be said about methods used to promote the sale of shares in an investment trust. Where the foundation consists of common stocks, even of the most successful corporations, it is

clearly impossible to promise a definite rate of return for any definite period of time. That fact should be made clear to those whose capital is invited. The pooling of a variety of stock in the custody of a trust company may disguise but does not alter the fact that purchasers of trust shares assume the risks of the business enterprises in which their combined capital is invested.

Despite the limitations of space, newspaper advertisements might well say something more than they usually have about the functions and responsibilities of the corporate trustee, and the degree of control which the investors in a given trust may exercise over the conduct of its affairs.

That somewhat similar trusts have long been known in England is not necessarily an argument for them in this country. English investors are not American investors, and the difficulty of obtaining any large personal representation of stockholders at an annual meeting of an American company is enough in itself to destroy the alleged parallel. The same disadvantage, of course, applies to any stock investment, but the investment trust appears likely to widen the distance between the owners and the active managers of our corporations, unless the managements of the trust estates are more vigorous than now seems likely.

Possibly the infant industry of creating investment trusts will develop and grow strong under criticism which helps it to devise methods of permanently effective management. Such an end is to be desired. As things are, the Stock Exchange authorities are fully justified in adopting an attitude of caution and, inferentially, suggesting the same attitude to investors.

A further review of the ruling in question is contained in an article by John F. Lowther which appeared in the *New York Herald Tribune,* October 5, 1924, viz.:

Owing to the apparent misunderstanding that prevails concerning the recent ruling of the Stock Exchange on the matter of participation by members in investment trusts, further clarification of the position of the Exchange authorities on this plan of selling units representing the shares of various companies, is expected in the near future.

The resolution of the Exchange, in effect, restrained members from participating in the formation or management of any investment trust or similar organization which, in the opinion of that body, involved features which did not properly protect the interests of investors. According to New York banking interests, who have recently introduced to the American market the British plan of investment trusts, the Stock Exchange resolution did not go far enough, in that it failed to specify what constitutes the unsound features.

The thought behind the Stock Exchange resolution apparently was to anticipate and forestall the activities of the imitators of a plan that, if carried out along unsound lines, would work to the injury of

the small investor. In any discussion concerning the possibilities of abuse of the investment trust idea one of the most important factors is whether the trust agreement securing the shares permits the substitution of the securities of other companies. This was one of the possible features aimed at by the Stock Exchange resolution.

It is also a fact that a number of self-styled investment trust propositions have sprung up in outlying districts, wherein the underwriters acted as trustee for the stocks deposited in lieu of appointing a reputable trust company to act in this capacity. This obviously does not properly protect the interests of the investor.

It may be said, in addition to the views above expressed, that there may have been a fear on the part of the Governors of the Exchange that some houses of issue might, not unnaturally, use the treasuries of investment trusts promoted by them as a dumping ground for securities in their possession which, while not necessarily unsound or even dubious in character, were very slow and difficult to sell.

It is believed that this resolution of the New York Stock Exchange constitutes perhaps the greatest blow which the organization of investment trusts in the United States has received. However, as was stated forcefully at the time, the resolution in question was not intended for carefully constructed investment trusts which are basically sound and which duly protect the interests of their investors; and the result has abundantly proved that, in spite of the foregoing resolution, no honestly promoted and well-managed investment trust need entertain any fear of having its purposes or policies misunderstood by intelligent American investors. In subsequent parts of this book, the author will have occasion to criticize all of the various forms of investing companies which have so far been evolved in the United States; but no criticism of a destructive character will be made, and the good points of all types will be explained and approved. It is not believed, for instance, that the bankers' share company is really an investment trust in the full sense of the word. It is conceded, however, that, so far as limited diversification is concerned, it partakes fully of a portion of the investment-trust theory; and it is also admitted that the bankers' share company is a real contribution to investment trust development and, as has been explained, is fundamentally caused by conditions peculiar to the American investment world. It is also believed that the investment-fund trust is widely at variance with the standard form of investment trust developed and established abroad, but this variation is also considered by the author to be a valuable contribution to investment-trust development, and its good points are thoroughly emphasized.

There would appear to be little doubt that in the years to come investment trusts will continue to develop in the United States on a broader basis and with many more variations as to type and purpose than have existed abroad or are likely to exist there in future years. This is one of the hopeful signs in connection with the evolution of investment trusts in the United States.

It would be well to stress the point that precedents in this field must not be regarded as unalterable, and that, so long as the principal objectives of the investment trust are observed, the methods by which they are obtained are only important insofar as they are calculated successfully to accomplish the ideal purposes of investment-trust theory, which are to obtain, for the individual investor, expert investment management and wide spread of risk through wise diversification.

DIFFERENCE BETWEEN AMERICAN AND BRITISH INVESTMENT TRUSTS

We have seen in our previous examination of the subject that the investment trust in Great Britain has had a career of approximately seventy years and during that period has developed along certain well-defined lines and become to a considerable extent standardized.

Since the war period various financiers and investment bankers in this country, particularly houses of issue, have promoted a relatively large number of investment trusts, some of which—one would say a minority—have resembled in a general way the British form of trust, although even these have differed materially as to details. The majority of the American investment trusts, however, have been decidedly different from the British type.

The points of difference are various, but two of them are more important than the others. The so-called "bankers' share" investment trusts, which are distinctively American, either contain no power on the part of the trust managers to substitute securities for those originally purchased, or, if such power does exist, it is so strictly limited that little or no discretion is left to those charged with the administration of the trust. The second important point of difference is that, in the case of a somewhat unusual form of trust which has been adopted by several American promoters, the securities purchased are treated as a trust fund and the trust itself does not hold title to them nor issue securities against them, but instead issues to investors

certificates of participation and manages the securities in the trust treasury for a stated fee.

Also, we find in America the same variation from the standard British form which we find to a certain extent in England, namely, the financing form of trust where the trust managers in many instances obtain a controlling interest in the companies whose securities they purchase for the trust treasury. Companies of this kind in America have so far been principally related to investments abroad. This brings to mind the further reflection that, while investment trusts in the United States do on occasion invest their funds in foreign securities, this cannot be said to be the principal purpose for which most of them have been organized. The domestic investment field has proved more attractive, especially in connection with bankers' share companies. This constitutes another difference, principally historical, between the American and the British investment trusts.

EVOLUTION OF TYPES IN AMERICA RESULTING IN FOUR PRINCIPAL KINDS OF TRUSTS

The evolution of the American investment trust is not nearly complete as yet. However, although it is only about six years since these trusts began to be organized in the United States, the process has advanced far enough for certain tendencies to be noted and a few distinct forms to be pretty clearly defined.

One of the first things which should be appreciated in this connection is the fact that, quite naturally, American financiers have tried to adapt the investment trust to American financial practice and to translate it into American financial language. By this is meant that American corporation finance is well standardized and American securities are, generally speaking, comprised within the terms bonds, preferred stock, common stock, and certificates of participation. In America we have relatively few debentures; and when we do issue them they do not ordinarily mean the same thing as is meant by the term debentures when it is used by a British financier. Therefore, we may note in the first place that in forming American trusts there is no splitting of the original subscription, such as occurs in England, and also that there are no standardized securities representing ownership and public investment. Instead, we find that American trust promoters turn easily enough to the corporation as the legal form for instituting an investment trust. It is true that in some instances, especially in connection with the New England companies, the busi-

ness or Massachusetts trust form is employed—which means, of course, an unincorporated association; nevertheless, in the majority of instances an American investment trust is incorporated as a first step.

We then find that one of several methods may be employed for fixing the rights of the parties connected with the enterprise. In many instances the corporate charter of the trust, or its charter and by-laws taken together, contain all necessary agreements and restrictions, and in time these are frequently supplemented by a separate agreement in the nature of a trust deed between the board of Directors of the trust corporation and some corporate trustee, usually a trust company, which acts as stake-holder for the securities in the trust treasury.

Sometimes, when the corporate form is not employed, the legal machinery is simplified by the execution of a declaration of trust by individual trustees, providing for the issuance of certificates of participation. These certificates, when purchased by the public, are secured by the deposit of the various investment holdings which go to form the treasury of that particular trust. In any event, the legal structure follows well-known American forms, whether they be those of the corporation or of the unincorporated association.

Let us now consider the principal forms which so far have been instituted in this country. In the first place, there is the investment trust which so closely resembles the standard British form that it seems proper to call it the Anglo-American trust. Examples of this form are the Massachusetts Investors Trust, the Morristown Securities Corporation, the First Investment Company of Concord, New Hampshire, and the International Securities Trust of America.

The distinguishing feature of a trust of this type is that, whether it is organized as a corporation or as a business trust, the two historic purposes of an investment trust, namely, diversification of security and management, are carefully protected. In other words, the trust managers, whether they be called directors or trustees, not only have the power but are charged with the duty of carefully watching the contents of the trust treasury and making such sales and substitutions from the securities owned as will best promote the interests of those who hold the securities of the trust. In this way, and in this way alone, can reserves be accumulated and a legitimate profit obtained on occasion for those who have promoted the trust.

Trusts of this kind are fairly numerous to-day in the United States; but they are not the standard form of trust in America, as they are in England, and it is questionable if they constitute a

majority of the American companies. Indeed, the author does not believe that they do.

The second type of trust which has arisen in the United States is of decided interest and is distinctly original. It is known as the investment-fund trust and has already been described. Perhaps the best-known example of this kind of trust is the Investment Managers Company of New York. This trust form also resembles the British form in that it not only provides for broad diversification of underlying securities, but gives full power to the trust managers, and there is free substitution and accumulation of reserves. However, its distinguishing characteristic is that, whereas the British trust issues its own securities collateraled by the underlying securities contained in the trust treasury, this American form of company issues but one kind of security, namely, a certificate of participation which gives the subscriber a direct interest in the securities contained in the treasury of the trust. There is nothing intermediate here. The subscriber's claim is not against the investment trust but is directly related to the securities purchased by the trust managers with the subscriber's money. This theory is carried out in great detail, as we shall subsequently see in connection with the legal rights and liabilities pertaining to this kind of investment trust.

The bankers' share company is also a distinctively American contribution. It probably arose through the sales resistance found to exist in America in connection with the sale of securities issued by such an untried financial organization as an investment trust, in which the question of management became of prime importance. It must be remembered that investment banking in the United States, while it has been cleverly and in the main honestly carried on, has had its full allotment of black sheep, and its failures have been at least as prominent as its successes. It is not surprising, therefore, that when American financiers sought to adapt the British investment trust to meet the exigencies of the American situation they found at the very beginning of their efforts a distinct question in the minds of many prospective investors as to the character and ability of the expert management to be afforded them through the medium of the investment trust. This same dubiety does not exist in Great Britain as there we have a long history of successful management which is persuasive to the minds of would-be investors, but in this country the difficulty was and is very real.

It is not strange that in seeking to overcome this obstacle investment-trust managers should have early hit upon the idea that by

retaining diversification of security and carefully eliminating the necessity for management, a compromise could be evolved which would definitely appeal to the average American investor. The result has been the so-called bankers' share investment trust.

In this form of investment company, the trust managers, before inviting popular subscriptions, first select with great care a diversified list of a limited number of securities, usually, in practice, common stocks. They treat a certain arbitrary number of the shares so selected as an investment unit; that is to say, for the purpose of illustration, we find that Diversified Trustee Shares are secured by common stocks of twenty-four specific companies deposited with and held by the trustee. Each share of Diversified Trustee Shares represents an exact $\frac{1}{1000}$ interest in a unit of 175 1/5 shares of common stocks, among which there are the stocks of six railroads, six public utilities, seven industrials, and five standard oil corporations. The trust managers then issue 1000 of their own trustee shares based upon 175 1/5 shares of Diversified common stocks, and these 1000 Diversified Trustee Shares are again split up for purposes of public sale into denominations of 5, 10, 25, 50, 100, 500, and 1000 shares. Subsequently, the financial structure and operation of this form of trust will be carefully examined; but at the moment it suffices to say that as each unit of shares is issued by the trust managers the underlying diversified stocks are irrevocably deposited with the trustee and are held by the trustee for the benefit of the trust's subscribers.

In the earlier bankers' share companies, there was absolutely no power of substitution, so that, once deposited with the trustee, the underlying stocks or bonds could not be sold unless a subscriber desired to withdraw from the trust; and this could only be done, in practically all cases, by a subscriber who owned at least 1000 shares. This freezing of underlying security, however, became so obviously dangerous that it was soon changed, and to-day bankers' share companies have in most instances a limited power of sale and substitution; but in almost every case the only substitution which can be made is through the purchase of other stocks or bonds already composing a part of the typical investment unit of the trust.

Thus we see that management has been practically eliminated from the picture in connection with bankers' share investment companies. What management there is is related solely to the original process of security selection and takes place before the first share is sold to the first subscriber. This accounts for the frequently re-

curring phrase which is found in the prospectus of such trusts, to the effect that the trust subscriber is obtaining the benefit of good management from more than one hundred leading boards of directors, not to mention the able and prominent men who are the officers of the underlying companies. In a sense this is perfectly true, but it is equally true of any investment which any man may make. He always and necessarily gets the benefit of the services of company boards and directors when he buys the securities of their corporations. The only element of differentiation that exists here is that the trust subscriber, by means of the diversification of his investment, be it large or small, among more than one hundred different corporations, does obtain the benefit of a spread of risk and also of a spread of underlying management; but it is further true that, so far as any management of the securities in his particular trust treasury is concerned, he does not receive any benefit whatever, because the very form of the bankers' share trust is such that the element of expert management is eliminated as far as possible.

With this important distinction in mind, the author believes that bankers' share companies cannot be considered, either technically or practically, as genuine investment trusts, because they only accomplish 50 per cent of the investment-trust purposes. On the other hand, it is an undeniable fact that in the United States to-day there are many companies which call themselves investment trusts and which have been instituted on the bankers' share principle. These companies, although hybrid as to type, unquestionably are in part investment trusts, because they do provide, and in most instances provide carefully, for diversification of security, and they also make it possible for the small investor to take advantage of such diversification. This being so, the author proposes to examine and discuss bankers' share companies with the same care and attention as any other form of investment trust, since he believes that they form an interesting and distinctive American contribution to the existing situation.

Let us now consider briefly the last form of trust of which we find examples in the United States. This is the financing or promotive trust. Except for the fact that it frequently seeks to obtain a stock control of its underlying companies, it is closely allied both in theory and practice with the typical Anglo-American trust and does not resemble the investment fund or the bankers' share company. It is perhaps no mere coincidence that financing trusts in the United States have up to this time dealt principally with foreign securities,

because very naturally it is considered desirable, when the opportunity offers, for an American investment trust to obtain at least an important voice in the affairs of any foreign underlying company. Thus we note that the North American Utilities Corporation and the German Credit Investment Corporation, both promoted by Dillon, Read, and Company, are trusts of this general type, and we also find the Swedish-American Investment Corporation and the American Super-Power Corporation to be interesting examples of the same form of company. It is proposed to examine subsequently the general characteristics of all of these American types of investment trusts.

CHAPTER XII

AMERICAN METHODS OF LEGAL ORGANIZATION

One of the factors which have operated in favor of standardizing the British form of investment trust is the practically uniform method of legal organization. Geographically, Great Britain is such a small country that there is no conflict of laws, no separation into states, and hence little chance of variety as to form. The Companies Acts of 1860 and 1908, with amendments, constitute a great universal code of business law, and under these Acts the British investment trusts are chartered.

In the United States, on the other hand, we have a Federal law, the Edge Act, and the corporation and association laws of forty-eight different states. Therefore, it is not to be wondered that, from the beginning, American investment trusts have shown much more differentiation as to legal form than those instituted in England. This differentiation is far more noticeable, however, in connection with the Anglo-American form of trust than with the bankers' share companies, the reason being that the latitude given to management by the Anglo-American type of trust requires more legal attention than in the case of bankers' share companies where the problem is much simplified by the elimination of management from the picture.

Local practice has also had a decided influence upon investment-trust formation. Thus we find that in the New England States a majority of the leading trusts have not been incorporated but are what is commonly known as Massachusetts trusts, or what should perhaps be known by the more general name of business trusts. This form of association will be briefly explained.

A few years ago, a number of promoters in Massachusetts, desiring to avoid corporate taxation, which was especially severe with regard to companies dealing in real estate, invented a form of association intended to be, as far as possible, analogous to the ordinary corporation, but at the same time to be an unincorporated association without charter and not subject to corporate taxes or the visitorial power of the state authorities. Instead of a charter, such an organi-

zation has a declaration of trust. In place of directors, there are trustees. In place of stockholders, there are subscribers to an association fund. These subscribers receive, in return for their subscriptions, certificates of participation issued by the trustees; and upon these certificates dividends are paid just as though they were shares of stock. It was fortunate for this new model of associative activity that the Supreme Court of Massachusetts sustained its essential legality soon after it was initiated. From the State of its birth, it has spread within the last five years to many other commonwealths, and it is to-day pretty well recognized as an alternative form of associated enterprise.[1]

It has several distinct drawbacks. One of these is the ever-present danger that the trustees and subscribers, or one or the other of them, may be held to be partners in the mutual enterprise. There is the further drawback that, since the association does not possess the perpetual existence derived from a corporate charter, its life must be limited by the well-known rule against perpetuities, which, to put it briefly, decrees that a trust of this character must terminate within a life or lives in being and twenty-one years thereafter. Perhaps however, the greatest danger in connection with the Massachusetts trust is that it is such a novel addition to our jurisprudence that many legal points connected with it remain as yet unsettled in nearly every state of the Union, while, on the other hand, corporation law all over the United States has become as well charted and as thoroughly marked as the harbor waters of New York City.[2]

It is an interesting fact, however, that many American investment trusts, especially in the New England States, have adopted the Massa-

[1] See Smith *vs.* Anderson, 15 Ch. D. 247; see also Crowther *vs.* Thorley, 50 L. T. 43; *In re* Siddall, 54 L. J. Ch. 682; *In re* Thomas, 54 L. J. Q. B. 336; *In re* Faure Electric Acc. Co., 40 Ch. Div. 141, 151, 152.

Also, Hoadley *vs.* County Comrs., 105 Mass. 519; Whitman *vs.* Porter, 107 Mass. 522; Shoe & Leather Co. *vs.* Dix, 123 Mass. 148; Gleason *vs.* McKay, 134 Mass. 419; Phillips *vs.* Blatchord, 137 Mass. 519; Ricker *vs.* American Loan and Trust Company, 140 Mass. 346; Mayo *vs.* Moritz, 151 Mass. 481; Hussey *vs.* Arnold, 185 Mass. 202; Williams *vs.* Boston, 208 Mass. 497; Williams *vs.* Johnson, 208 Mass. 544; Williams *vs.* Milton, 215 Mass. 1; Frost *vs.* Thompson, 219 Mass. 361; Rand *vs.* Farquhar, 226 Mass. 91; Dana *vs.* Treas. and Recr. Genl. 227 Mass. 562; Cunningham *vs.* Bright, 228 Mass. 385; Priestley *vs.* Treas. and R. Genl., 230 Mass. 452; Kimball *vs.* Whitney (Mass.), 123 N. E. 665; Tax Comrs. (Mass.) Rep. House Doc. No. 1646; also House Doc. No. 1788.

Business Trusts as Substitutes for Business Corporations, G. A. Thompson, p. 17.

[2] *Ibid.*, p. 40 et seq.

chusetts-trust form as their legal type of organization. In some instances the trust deed is much less complicated than in others. For instance, a simple form of organization is found in the Trust Indenture of the Bond Investment Trust, the opening paragraphs of which are as follows:

THIS DECLARATION OF TRUST made this first day of May, in the year nineteen hundred and twenty-three, by Albert H. Beck of Wayland, W. Eugene McGregor of the City of Newton, both in the County of Middlesex; Andrew J. Peters of the City of Boston, in the County of Suffolk; Isaac Sprague of Wellesley and Charles F. Weed of Brookline, both in the County of Norfolk, all in the Commonwealth of Massachusetts, hereinafter referred to as the Trustees,

WITNESSETH:

It is the object of this Declaration of Trust to provide a form of investment which encourages thrift and allows a subscriber for a large or small amount to secure the advantages of high-grade securities, responsibility of competent management, and strength of investment provided by diversity:

DESIGNATION

This Trust shall be called the Bond Investment Trust.

I

TRUSTEES' DUTIES AND POWERS

The Said Trustees shall hold all the funds and property now or hereafter held by or paid to or transferred or conveyed to them or their successors as Trustees hereunder in trust for the purposes, with the powers and subject to the limitations hereinafter declared, for the benefit of the holders of the certificates of beneficial interest in this Trust, and it is expressly declared that a trust and not a partnership is hereby created, and neither the Trustees nor the holders of certificates of beneficial interest shall ever be personally liable hereunder as partners or otherwise, but that for all debts the Trustees shall be liable as such to the extent of the Trust Fund only, and in all contracts and instruments creating liability it shall be expressly stipulated that the holders of the certificates of beneficial interest shall not be liable.

Power of Investment

(*a*) The Trustees shall have as full power and discretion as if absolute owners to invest and reinvest the Trust Fund (including any surplus and also income) in personal property, including bonds, obligations secured by mortgage upon real estate, notes and bank acceptances, and the decision of the Trustees as to what is personal property shall be final.

(*b*) They shall have the like power of investment in the securities of the United States of America, or of any state, county, municipality or town therein, or of any foreign government or of any state, city or sub-division of any government.

(*c*) The Trustees may at any time invest in the certificates of beneficial interest hereunder, and may purchase the same at such price, or on such terms as may seem to them advisable.

Power of Sale

The Trustees shall have full power and discretion to sell, exchange, transfer and convey from time to time, at public or private sale, any part or all of said Trust Fund upon such terms and conditions as they see fit, and the purchaser from them shall not be responsible for the application of the purchase money, and to invest the proceeds in the same manner and upon the same terms as the original fund.

On the other hand, the Massachusetts Investors Trust accomplishes the same general purpose, also using the Massachusetts-trust form, by means of a much more complicated trust indenture. It would seem that, wherever possible, a simple, brief, explicit declaration of trust constitutes the best method of association where the unincorporated form is employed.

A variation of the Massachusetts-trust form is found in connection with a trust recently formed in Philadelphia by Brooke, Stokes, and Company, Investment Bankers. Here there is no specific declaration of trust, but instead there is a contract, termed an investment-trust agreement, between Brooke, Stokes, and Company, a co-partnership, and the Girard Trust Company, Trustee, and the holders of Philadelphia Joint Stock Trust Certificates issued or to be issued under said agreement, who are called the "investors." This form is a tripartite contract between the house of issue, the trustee, and the subscribers who are analogous to stockholders. It is governed by the law of contracts and would seem to have many advantages, the most important of which is the clarity with which the rights and liabilities of all parties to the contract are defined in the agreement. This form seems to eliminate any danger of the association under the contract being considered a partnership between the trustee and the investors or on the part of the trustee itself in connection with the bankers.[3]

[3] See Investment Trust Agreement, dated May 1, 1926, between Brooke, Stokes & Co., "Bankers," Girard Trust Co., "Trustee," and the holders of Philadelphia Joint Stock Trust Certificates, "Investors."—Published by Brooke, Stokes & Co., Philadelphia, 1927.

Let us now consider corporate form as applied to investment-trust organization. We shall find at once that many American investment companies turn naturally to the corporation as a proper method of organization and also the one to which their managers are, by long experience, most thoroughly accustomed. It should not be forgotten in this connection that custom has also dictated the financial structure of American investment companies, and this structure in the main has been made, so far as possible, analogous to the usual corporate form. American financiers do not wish to learn new terms for security issues but prefer to stick to bonds and preferred and common stock whenever it is possible to do so. This being a fact, it will be readily understood that, in order to use these well-known types of securities with facility, the adoption of the corporate form becomes almost a necessity. Some American companies are so similar in legal construction to ordinary business corporations that it takes a careful reading of the charter and by-laws to perceive any essential difference. Thus, we find that the Morristown Securities Corporation possesses a certificate of incorporation quite similar to that of any corporation formed for profit, and its by-laws, which the management prints along with the charter, perform the function that corporate by-laws usually fulfill. The Morristown Securities Corporation was formed under Article II of the Stock Corporation Law of the State of New York. It is typical of the American desire for extensive corporate power, the purposes of the corporation having been made extremely liberal—more liberal, indeed, than would ordinarily be the case in an investment trust. It may be worth the space required to give, at this point, excerpts showing the corporate powers, viz.:

2. That the purposes for which it is to be formed are to do any and all of the things hereinafter set forth to the same extent as natural persons might or could do in any part of the world, namely:

(*a*) To investigate and examine into businesses, enterprises and undertakings, whether in the United States or elsewhere with a view to securing openings for the employment and introduction of capital in any part of the world.

(*b*) To such an extent as permitted to business corporations in the State of New York, and not otherwise, to purchase or otherwise acquire, become interested in, hold, sell, mortgage, pledge or otherwise dispose of or turn to account or realize upon all forms of securities, including stocks, bonds, debentures, debenture stocks, notes, evidences of indebtedness, certificates of indebtedness, certificates of interest, commercial paper, mortgages and other similar instruments and rights, issued or created by corporations, domestic or foreign,

associations, firms, trustees, syndicates, individuals, governments, states, municipalities or other political divisions, or issued or created by others and to deal in and with the same and to issue in exchange therefor or in payment thereof, its own stocks, bonds or other obligations or securities or otherwise to pay therefor; to exercise in respect thereof any and all rights, powers and privileges of individual ownership or interest therein, including the right to vote thereon and to consent or otherwise act with respect thereto; to do any or all acts and things for the preservation, protection, improvement and enhancement in value thereof or designed to accomplish any such purpose and to aid by loan, subsidy, guaranty or in any manner those issuing, creating or responsible for any of such securities, all to such extent as permitted to a business corporation under the laws of the State of New York.

(*c*) To acquire or become interested in any such securities as aforesaid by original subscription, underwriting, participation in syndicates, or otherwise and irrespective of whether or not said securities be fully paid or subject to further payments; to make payments thereon as called for or in advance of calls, or otherwise, and to underwrite or subscribe for the same conditionally or otherwise and either with a view to investment or for resale or for any other lawful purpose.

(*d*) To aid, assist or participate in the liquidation or reorganization of financial, commercial, mercantile, manufacturing, industrial or other business concerns, firms, associations or corporations, and for that purpose and to the extent then permitted to business corporations in the State of New York, and to take over the properties, manage the affairs and conduct the business of such concerns, firms, associations and corporations provided such concerns, firms, associations and corporations are engaged in business permissible to business corporations in the State of New York, and in the course of such business to acquire and dispose of or otherwise turn to account all or any negotiable or transferable instruments or securities, including debentures, debenture stocks, bonds, notes, certificates and evidences of indebtedness, certificates of interest and all kinds of commercial paper. To purchase or otherwise acquire, sell or otherwise dispose of, realize upon or otherwise turn to account, manage, liquidate or reorganize the properties, assets, business, undertakings, enterprises or ventures, or any part thereof, of corporations, associations, firms, individuals, syndicates and others provided such corporations, associations, firms, individuals, syndicates and others are engaged in business permitted to business corporations in the State of New York, to further and promote the general business interests of any thereof and to improve, extend, place upon a safe and more permanent foundation any such business, undertaking, enterprise or venture.

(*e*) To the extent permitted to business corporations in the State of New York, to purchase, take on lease or in exchange, hire or otherwise acquire real or personal property including land,

buildings, factories, mills, mines, works, wharves, roads, railways, machinery, engines, rolling stock, plant, stock in trade, live stock or other things which may be necessary, suitable or convenient for the purpose of the corporation's business, or which may be used conveniently or be capable of being dealt with in connection with or may enhance the value of or render profitable any of the corporation's property, rights or assets.

(*f*) To purchase or otherwise acquire and carry on the whole or any part of the business, property, good will and assets of any company carrying on or proposing to carry on any business which this corporation is authorized to carry on or which can be conveniently carried on in connection with the same or which may seem directly or indirectly to benefit this corporation, or suitable for the purposes of this corporation and as part of the consideration for any of the acts or things aforesaid or property acquired to undertake all or any of the liabilities of such company and to give, issue or accept cash or any shares, debentures or securities that may be agreed upon and to hold and retain or sell, mortgage and deal with any shares, debentures and securities so received to the extent permitted to business corporations in the State of New York.

* * * * * *

(*j*) To sell, exchange, mortgage, assign, lease, sublet, improve, manage, develop, dispose of, turn to account, grant rights and privileges in respect of and generally otherwise to deal with the whole or any part of the business, assets, property, rights or undertaking of the corporation upon any terms, either together or in portions and either for cash, shares, stocks, debentures, obligations or securities, subject to the provisions of the laws of the State of New York applicable to business corporations.

(*k*) To invest and deal in the moneys of the corporation not immediately required upon such securities in such manner as may from time to time be determined by the directors of the corporation and to place any such moneys on deposit in banks, trust companies or other depositaries.

(*l*) To raise or borrow money and to secure the payment of money by the issue of or upon debentures, bonds or other obligations charged or not charged upon or by mortgage, charge, hypothecation, lien or pledge of the whole or any part of the property, assets and rights of the corporation, and to issue the same for such consideration and on such terms all as permitted to business corporations in the State of New York.

(*m*) To create, make, draw, accept, endorse, execute, issue and negotiate bills of exchange, trade acceptances, promissory notes, bills of lading, warrants, debentures, and other negotiable or transferable instruments, so far as permitted to business corporations in the State of New York.

Under the foregoing corporate powers, the Morristown Securities Corporation could undoubtedly act as a financing trust should it desire to do so, but up to the present time it does not seem to have any ambition in this direction.

Again, we find in the case of the American Bond and Share Corporation that the legal structure is that of the straight collateral trust indenture, with the underlying securities forming the legal basis for the issue of the first lien collateral secured convertible 6 per cent gold bonds, issued by the City National Bank of Bridgeport, Connecticut, as trustee. There is no business trust here. The American Bond and Share corporation is separately organized, and the actual investment-trust feature is worked out under the form of an ordinary collateral trust agreement, known in this case as the collateral-trust indenture.

An interesting although unnecessarily complicated form of investment trust is exemplified by Incorporated Investors, a trust organized by Parker, Putnam, and Nightingale, Inc., of Boston, Mass. In the operation of this trust there are four principal parties: (1) the corporation itself, known as Incorporated Investors; (2) Parker, Putnam, and Nightingale, Inc., the fiscal agent; (3) Charles Summer Byrd, Jr., and Warren Motley *et al.*, the Trustees; and (4) the Old Colony Trust Company of Boston, Mass., the depositary. Apparently the controlling idea in the minds of the promoters was to institute a neat balancing of power among a number of interested parties. Undoubtedly the most powerful group is the trustees, who obtain control through an adaptation of the usual voting trust, by means of which the company's stockholders deposit their shares and get back certificates of participation upon which dividends are paid to them, their voting powers being left with the trustees who thus obtain control of the corporation. In connection with an American investment trust, this complex set-up seems very cumbersome and unnecessary but it shows how closely the American trust promoter tends to follow established corporate forms and how much his mind is influenced by past custom in dealing with new problems of organization.

The International Securities Trust of America, now the International Securities Corporation, is interesting because it represents a change in organization policy or a shift in six years from the Massachusetts-trust form of organization to the corporate form. Undoubtedly the desire to issue corporate securities in large amounts influenced the trust managers to make this change. There were probably other reasons. The state of incorporation is Maryland.

There is little of interest in connection with the legal organization of the bankers' share companies. It may be noted in passing that most of them seem to have chosen Delaware as the state of incorporation. This is natural enough in view of the well-known liberality of the Delaware corporation laws.

The situation as it stands to-day would seem to suggest that hereafter investment-trust managers in matters of legal organization should seek simplicity and, indeed, should make this their main objective. Whether the organization be formed along the lines of a Massachusetts trust or under the provisions of a corporate charter, those in control should remember that the points to be covered are relatively few and that clarity, simplicity, and brevity are ends to be greatly desired. These qualities not only make the investment trust, when organized, easier to operate, but they also appeal to the investing public which likes to know, in clear, plain English, just what is going to happen when money is invested in any particular security.

CHAPTER XIII

CAPITAL STRUCTURE OF AMERICAN INVESTMENT TRUSTS

In taking up this part of the subject, it is well to emphasize at the outset that there is no such uniformity in capital structure among American investment trusts as is to be found among those of Great Britain. Seventy years of experience have crystallized British practice into well-recognized methods of capitalization, and besides, the British methods conform quite closely to the accepted customs long employed in Great Britain in connection with ordinary corporate structure. In America we have no splitting up of the original subscription into various proportions of different kinds of shares, nor have we employed customarily the debenture bond in the same manner as it has been used in English finance.

It must also be remembered that in the matter of American investment companies we are still in the early part of a period of experimentation and hence there has not been time for any standardization of corporate structure to take place. All that has occurred has been a certain crystallization of usage in connection with some of the evolving forms of investment trusts, and we find a decided difference in capital structure, depending upon the kind of investment trust under consideration. For example, the so-called bankers' share companies are quite simple in structure because they ordinarily issue but one kind of security which is directly secured by their underlyings deposited with a trust company as trustee. The fixation of the underlyings, already alluded to, the absence of frequent changes in the balance sheet due to management and manipulation, and in most instances the lack of accumulation of reserves all tend toward the employment of a simple corporate structure, because, after the original segregation of underlyings in each investment unit, there is very little change in the situation during the life of the trust.

Another type of investment company in which the capital structure is notable for simplicity is that of which the Investment Man-

agers Company is an outstanding example. Here the underlying securities are directly owned by the investors. There is no intermediate corporate ownership and no necessity for any more complicated arrangement than the issue of shares of stock or certificates of participation directly secured by the diversified list of trust holdings. The investors own the fund and the investment corporation manages it for them, all of which may be adequately provided for by a single security issue. As time goes on, companies of this character will undoubtedly issue securities serially, and perhaps indulge in a slight change of name; but there would seem to be no reason for any further complication in the set-up.

Turning now to the investment trusts which in America so closely parallel the British type that they have been designated Anglo-American trusts, we find a field in which there has been and still is much experimentation with regard to corporate structure, and as yet very little agreement upon the exact forms to be employed or the securities to be issued. We may note a tendency, however, to parallel in trust formation the forms employed and the securities issued in this country in connection with the ordinary types of corporations. It is noticeable that we no longer encounter public borrowing in the form of debentures, such as we met in considering the English trusts, nor do we find a fixed ratio between shares denoting ownership and shares allotted to public participation. We also find, as has been previously pointed out, great variability in the matter of incorporation, and it is not surprising that investment companies are now springing up under the laws of many American commonwealths subject to such changes in statutory law as the diversity of locations would inevitably imply. It is regrettable, not merely in connection with investment trusts, but with regard to the whole field of American corporation finance, that there does not exist to-day in the United States, and for obvious reasons cannot exist, a clear, definite, and universal code of law comparable to the English Companies Acts.

Wherever trusts have been incorporated, however, and even where there has been no incorporation but instead the business-trust method has been employed, we find certain tendencies and a few definite results in the use of the various forms of security which in America have been long sanctioned by both custom and law. It may prove interesting to examine in some detail a few of the tendencies and results above mentioned.

INVESTMENT COMPANIES WITH CLOSELY HELD SECURITIES

There is in the United States a type of investment company which does not seem to have an exact analogue abroad. British and Continental trusts, while issuing ownership securities primarily for the benefit of trust promoters and managers, nevertheless, make a broad appeal for public subscriptions, usually through their preferred shares and debenture issues; but in America some investment companies make no such appeal, limiting their participation to the promoting and managing group. A cursory examination of such companies might lead one to call them "rich men's investment trusts," but such a designation would not be entirely accurate. It is quite true that it would apply to a number of them; but there are others, usually comparatively small in size and with a limited capitalization, which might more properly be termed "community or neighborhood investment trusts," their promoters being inhabitants of the same city or state, usually well known to one another and not desirous of enlarging the investment group, but well content to organize and manage what is in essence a mutually coöperative investment pool. There is an element of good management in this arrangement because it bespeaks mutual knowledge, interdependence, and trust. It may be somewhat provincial, but in relation to an admittedly small investment company it is not unsound. An officer of one of these trusts wrote to the author as follows:

"All capital subscriptions have been placed with the directors or their friends, and we have therefore no prospectus. There has been no advertising or general offering to the public so we should be interested to know how your attention was drawn to us."

This would seem to illustrate fairly well some of the statements which have just been made.

An interesting example of this type of investment trust is the First Investment Company of Concord, New Hampshire. This trust is incorporated and therefore has no trust agreement but enjoys the usual latitude inherent in the corporate form. On December 31, 1926, the First Investment Company had outstanding Class A Stock, 10,516 shares at $50 per share: and Class B Stock, 10,000 shares, no par value. Surplus amounted to $68,269.51, which made the Company's total liabilities $594,069.51. Against this, the Company had, as assets, Cash, $44,815.51; Demand Loans, $50,000; Bonds, $157,767; and

Stocks, $341,487; or total assets of $594,069.51. In writing to the author, the treasurer of this trust said:

"The picture I would like to give you is that of a group of conservative outstanding New Hampshire men experienced and successful in financial affairs working on what we believe to be a sound plan, so that the seven hundred odd stockholders of large and small means may possess a sound investment returning better than the average income. We have been working away on this for eleven years now, gradually expanding our scope as we increase our experiences and abilities. We hope to be able to continue the growth in size and to satisfy our stockholders."

The Morristown Securities Corporation is an interesting investment company in which the financial set-up is simple and the securities closely held. There has been no appeal for public participation. The company's balance sheet for December 31, 1926, reveals the following financial structure:

5 Per Cent Cumulative Preferred Stock:	
Authorized 25,000 shares $100 par value	
Issued 15,861 shares	$1,586,100.00
Common Stock:	
Authorized 75,000 shares no par value	
Issued 56,722 shares	567,220.00

There are no bonds, and, while all of the securities really represent ownership, the cumulative preferred stock would seem to be the underlying issue, and the ratio of the preferred to the stock outstanding is 73.66%. This again represents a friendly pooling of investment interests and is an interesting feature of the American situation.

Occasionally we find an inside company within an investment-trust group, where the element of public participation is lacking. Such a company is Bankers Capital Corporation, one of the subsidiaries of Bankers Capital—Eastern Bankers Trust. The Bankers Capital Corporation also holds all of the stock of Bankers Capital Company of Connecticut. Again we find simplicity of organization, the Bankers Capital Corporation having a capitalization of 10,000 shares 8 per cent cumulative and participating preferred, with a par value of $100, of which 6000 shares are outstanding; and 10,000 shares no par value common stock, all of which is outstanding. In addition, the Corporation owns the entire capital stock of $200,000 common shares of the Bankers Capital Company of Connecticut. The Company's prospectus reads as follows:

This Corporation organized in 1923 is engaged exclusively in dealing in stocks of bank, trust, title insurance and other financial institutions. It is the only Corporation in New York City which strictly confines its operations to this class of investments.

The Corporation extends to its clients composed of banks, trusts and other financial institutions, trustees and private individuals, a complete and specialized service covering investments in stocks in financial institutions. All transactions are on a cash basis—no margin or speculative accounts accepted. The Bankers Capital Company of Connecticut, a subsidiary of the corporation, operates in the same capacity in the State of Connecticut.

The Corporation has never offered, is not now offering, and does not contemplate offering any of its stock to the public.

CAPITAL STRUCTURE OF THE ANGLO-AMERICAN TRUST

Undoubtedly the most interesting of American investment trusts are those which in theory closely parallel the British standard type, although the specific methods employed and the securities issued here are oftentimes dissimilar to those used abroad. Several investment companies of this type are developing rapidly, and, because of the large discretionary powers vested in the trust managers, they are turning over their capital funds with facility, making steady gains in income, issuing new securities, and often altering their corporate structures to conform with changing situations and added needs.

The largest, and unquestionably one of the most successful, of American investment trusts is the International Securities Corporation of America, which is the successor of the International Securities Trust of America. The original company was organized in 1921 and the new trust acquired all the assets and liabilities of its predecessor in 1927. The report of the trustees of the original company for the fiscal year of 1923 describes succinctly the early development of the trust as follows:

To the Shareholders:

The Progress made by International Securities Trust of America during the calendar year 1923 has been gratifying to your Board of Trustees. You are aware that although the Trust was organized in April, 1921; nevertheless, on account of unavoidable delays its total resources at the beginning of 1923 had reached the amount of only about $40,000. By the end of the year, however, the total bond and share capital outstanding exceeded $400,000. These figures mean even more when it is remembered that the bond business in general was dull for the greater part of the year and that practically all of this

volume was sold by only two investment houses; namely, Bull & Rockwell Company, and W. R. Bull & Company.

Another step of marked progress accomplished during the year was the complete revision into final form of the Articles of Trust which took shape under the Amended Declaration of Trust May 25, 1923. This Amended Declaration of Trust is the result of experience and wide investigation on the part of your Trustees and is drawn under careful and experienced legal advice.

Under date of June 1, 1923, another forward step was taken in the completion of the Deposit Agreement between your Trust and the Guaranty Trust Company of New York. This document was also drawn with the utmost care and specifies the terms under which the collateral securing the serial gold bonds is held by the Trust Department of the Guaranty Trust Company of New York.

It will be observed that, as above stated, the International Securities Trust was laying its foundation for future progress during the first two years of its existence. It is remarkable how this trust has enlarged its plan of operations and altered its financial structure to meet new conditions, at the same time introducing a great many improved provisions into its basic agreement, as evidenced by the Amended Declaration of Trust executed in 1923.

Considering merely its capital structure, we find that on January 31, 1924, the International Securities Trust of America was authorized to issue 250,000 shares par $100 seven per cent cumulative preferred stock, and had actually issued 1371 shares of this stock with a value of $137,100. It was further authorized to issue 800,000 shares of no-par-value common stock and had actually issued for cash 3162 of these shares at an average price of $66.55, making a total of $210,434.99, or an outstanding total for all stock issued at that date of $347,534.99. In addition, the Trust had issued serial gold bonds as follows:

Series A 6 per cent due June 1, 1928	$53,000
Series B 6 per cent due June 1, 1933	64,500
Series C 6 per cent due June 1, 1947	42,500

making a total bonded indebtedness of $160,000. It may be noted in passing that at that time the Trust's total investment in various securities amounted to $501,875.74.

This financial situation existed about three years and a half ago, and if we compare it with the present corporate structure of the Trust we find that a truly remarkable change has taken place. Quoting the latest balance sheet, May 31, 1927, adjusted to July 7, 1927, we find that the capital stock of the new International Securities

Corporation of America, which is to be issued in exchange for an equal number of like shares of the original corporation, the International Securities Trust of America, is set up as follows:

Cumulative Preferred Shares ($100 Par):		
Seven per cent Series	$87,600.00	
Six per cent Series	11,603,200.00	
Six and one-half per cent Series	6,433,100.00	
		$18,123,900.00
Class A Common Shares (no par) 307,566 shares		5,440,546.75
Class B Common Shares (no par) 600,000 shares		2,222,220.00

In a footnote to the balance sheet it is explained that all of the Class B common shares are owned by the American Founders Trust, which will be thoroughly described subsequently in connection with the topic of trust management. At this time it will suffice to say that the American Founders Trust is the fiscal agent and managing corporation not only of the International Securities Corporation of America but also of the Second International Securities Corporation, another investment trust organized by the same interests. It may also be stated that this Class B common was given to the American Founders Trust at the time of the International Securities reorganization, for a small cash consideration but primarily in payment for past services in connection with the organization and management of the International Securities Trust.

We also find that this corporation has the following funded debt:

Funded Debt:		
Five per cent Gold Debentures due 1947	$15,000,000.00	
Secured Gold Bonds (Five Series)	1,882,900.00	
		$16,882,900.00

The Secured Gold Bonds (five series) mentioned above include the three series already noted as in existence on January 31, 1924, and two others which were subsequently brought out. The $15,000,000 issue of 5 per cent Gold Debentures due 1947 is the latest piece of financing performed by this corporation. It is of special interest because it seems to be the first attempt of an American investment trust to adopt the British plan of issuing prior lien debentures to the public, and is closely in accord with one of the standard practices of the leading British trusts.

It would seem that the group of corporations managed and controlled by those who have promoted the International Securities Corporation is now assuming final form. This form can only be understood by examining the group holding company—the American Founders Trust. This is a Massachusetts trust and was organized May 18, 1925, with a capital and surplus (April, 1927) amounting to $16,917,019.44, and surplus reserves and undivided profits amounting to $3,631,-453.08. The American Founders Trust is in the nature of a holding company, but it is far more than that. It is a fiscal agent and managing corporation and also an investment trust on its own account. One of its principal functions is to acquire the junior shares of affiliated trusts, by which at this time is meant International Securities Corporation and Second International Securities Corporation. It has no bonded debt, and on November 30, 1926, its capital consisted of 109,623 First Preferred 7 per cent Cumulative Shares (par $50) $5,481,150; and 9528 shares of 6 per cent Second Cumulative Preferred (par $25) $2,380,200; making a total preferred share capital of $5,719,350; in addition, there were outstanding at that date 547,732 shares of no-par-value common stock valued at $3,022,843.36. This trust, in April, 1927, owned the following junior shares of its affiliated companies, viz.: 600,000 shares Class B Common Stock of International Securities Trust of America; 600,000 shares Class B Common Stock of Second International Securities Corporation; and 20,000 shares 6 per cent Cumulative Second Preferred Stock of Second International Securities Corporation. Furthermore, it had operating agreements with both of the above-mentioned corporations by which it agreed to act as financial manager and fiscal agent for them for a specified rate of compensation, its old arrangement with the International Securities Trust of America, by which it was to act for that Trust in consideration of certain options to purchase its common shares, having been canceled.

We may thus see that a comparatively small Massachusetts trust, which in 1924 displayed a balance sheet revealing assets of $530,205.11, has developed in the space of a little over three years into a group of three corporations. The keystone of this group is the American Founders Trust, which is the holding and managing unit, with resources of $15,530,985.35. The other two members of the group are investment trusts of the Anglo-American type, one of which, the International Securities Corporation of America, is a reorganization of the original investment trust with capital and liabilities amounting to $46,269,176.50, while the Second International Securities Corpora-

tion, the most recently organized member of the group, has been put together with an authorized capitalization of $33,000,000 and an actual outstanding capitalization of $6,386,660. It is believed that this is the most remarkable example of rapid development which has so far been shown by any investment trust in the United States, and the future career of this interesting group of corporations should be closely observed by all students of investment trusts.

A less complicated financial structure is that of the Financial Investing Company of New York, Ltd., and here, too, we find that corporate growth has been rapid. The balance sheet of February 28, 1925, shows:

Capital Stock:		
8046 Shares (par value $10)	$80,460.00	
Surplus (paid in)	20,149.50	
		$106,609.50

On January 31, 1926, the balance sheet reveals a bonded debt of $100,000, which continues under the name of bonded debt until January 31, 1927, when it appears as follows:

Bonded Debt:		
Series of 1930	$165,000.00	
Series of 1940	161,000.00	
	$326,000.00	
Accrued Interest	5,433.34	
		$331,433.34
Capital Stock:		
28,568 Shares (par value $10)		285,680.00

Six months later, July 31, 1927, the condensed statement of condition of the corporation reveals a further revision of the financial set-up as follows:

Resources		
Cash	$79,329.33	
Investment Securities	1,376,924.02	
Accrued Income	22,082.07	
Accounts Receivable	109,883.12	
Bond Discount and Deferred Charges	100,219.45	
		$1,688,437.99

LIABILITIES

Secured Debt	$1,019,500.00
Accrued Interest	15,178.50
Capital Stock (51,894 shares)	518,940.00
Accounts Payable	9,773.84
Surplus and Undivided Profits	125,045.65
	$1,688,437.99

This statement shows a remarkable growth in both bonded debt and capital stock during the three-year period. It may be noted that the authorized capitalization of the Financial Investing Company is $1,000,000 common stock, par value $10, and $4,000,000 bonded debt. The bonded debt is issued in series in coupon bonds in $1000 denominations and is secured by collateral (cash or securities) pledged with the trustee. It is also to be noted that, with each one of the bonds of this issue, the purchaser receives a bearer's stock-purchase warrant entitling him to purchase, prior to October 31, 1927, 20 shares of common stock at $17.50 a share. Again we see the Anglo-American trust following the English practice of issuing prior lien debentures for public subscription as soon as circumstances and the growth of the corporation permit such action to be taken.

Electric Investors, Inc., the management of which is identified with the Electric Bond and Share Company, has a simple form of capital structure, viz.:

CAPITALIZATION

(On Completion of Present Financing)

	Authorized, Shares	Outstanding, Shares
Preferred Stock (No Par Value):		
$7 Cumulative	50,000	29,645
$6 Cumulative	150,000	60,000
Common Stock (No Par Value)	1,000,000	780,137.2
Subscription Receipts for Common Stock *	.....	66,813

* On which payment of at least 10 per cent of subscription price has been made.

There are also outstanding option warrants, entitling the holders thereof to subscribe for 24,190 shares of Common Stock at $20 per share at any time.

Subscription Receipts entitle the holder, upon completing payment at any time of $20 for each share, to receive shares of fully paid Common Stock. Additional payments may be made at any time on account of these Receipts or full payment therefor may be made at any time at the option of the holders of said Subscription Receipts, and payments thereon can be called by the Company in installments of not more than 10 per cent of the total subscription price, but installments cannot be called for payment less than six months apart.

This $6 Preferred Stock is fully paid and non-assessable and ranks equally with the $7 Preferred Stock as to priority over Common Stock with respect to assets and dividends. It is entitled in preference to the Common Stock to cumulative dividends of $6 per share per annum payable quarterly February 1, May 1, August 1, and November 1. It is redeemable as a whole or in part, at the option of the Company, at any time upon thirty days' notice at $110 per share and accumulated dividends.

Upon dissolution or liquidation, whether voluntary or involuntary, the Preferred Stock shall be entitled in full settlement to receive out of the assets of the Company $100 per share and accumulated dividends before any payments are made on the Common Stock of the Company. The Common Stock shall be entitled to all other profits of the Company after the payment of full dividends on the $6 and the $7 Preferred Stock.

To the extent permitted by the laws of the State of Maine the voting power of the Company is vested solely in the holders of the Common Stock.

The Preferred Stock is followed by 780,137.2 shares of Common Stock and Subscription Receipts for 66,813 additional shares of Common Stock which, together, at present market quotations represent an equity in excess of $25,000,000. When called by the Company, over $1,190,000 in cash, representing additional equity to the Preferred Stock, will be payable by holders of the Subscription Receipts.[1]

It will be noted from the foregoing that the authorized capital is

50,000 shares 7 per cent cumulative at...$100 per share
150,000 shares 6 per cent cumulative at... 100 per share
1,000,000 shares common at..... 20 per share

With the lower unit price for common stock, there is in reality but $20,000,000 to be realized for capital account by a sale of the entire amount of common stock, and $20,000,000 to be realized by the sale of the entire preferred stock, of which $5,000,000 is 7 per cent and $15,000,000 is 6 per cent. An interesting feature of this company's capitalization is that the profits of the company are freely shared with the public as they will undoubtedly be reflected in common stock

[1] Excerpt from letter dated November 22, 1926, from S. Z. Mitchell, President of Electric Investors, Inc., to Bonbright & Co., Inc., Investment Bankers.

dividends. This would seem to be a persuasive feature from the standpoint of the average investor.

Extreme simplicity of structure has been achieved by Incorporated Investors, an excellent example of a stock-investing trust, whose fiscal agent is the Parker Corporation of 60 State Street, Boston. Incorporated Investors differs from many investment trusts in that it has only one class of stock and its shares are fully participating. It is believed, however, that in the future this trust and others like it will probably issue debenture bonds as the larger companies have already begun to do.

The Massachusetts trust in its simplest form affords an opportunity for an uncomplicated one-security issue, and this has been taken advantage of by the Bond Investment Trust and the Bond Investment Trust of America, two trusts formed by Harris, Forbes & Company, of Boston, Mass. These trusts issue certificates of beneficial interest paying 5 per cent annually, and in the case of the Bond Investment Trust, free of the Massachusetts Income Tax. In a relatively small trust, it would seem that the issuance of one security is an advantage and an attraction to investors. Certainly it has proved effective as far as these trusts are concerned, for on April 30, 1925, the certificates of beneficial interest of the Bond Investment Trust totaled 603,800; while on April 30, 1926, the amount of these certificates outstanding had increased to 1,926,000; and on April 30, 1927, to 2,073,700. The management of the trust accounts for the somewhat slower growth during the year 1926–27 by the fact that during this period the price of the certificates advanced to $104 and accrued interest.

Another Massachusetts trust which has adopted the same type of corporate structure is Massachusetts Investors Trust, which on December 31, 1926, had issued and outstanding 51,085 shares of capital stock, par $50, amounting to $2,554,250. The management of this trust states that it is strictly mutual in character, that there is only one class of stock, and that every share has been fully paid for. On July 15, 1927, $4,500,000 had been paid in, and the trust had over 1500 stockholders, holding from 1 share to 2000 shares of its capital stock.

Summarizing, therefore, the tendencies and results observable in the capital structure of Anglo-American trusts, it would seem to be true that, up to this time at least, there has been little effort devoted to separating promoters' profits from the benefits to be derived by the investing public. On the contrary, there is a distinct tendency in

the United States toward simplicity of corporate structure in investment companies. As a trust increases in size it usually assumes a bonded debt, which, of course, means a definite interest payment at a fixed rate; but at the same time full opportunity is given to investors to purchase capital stock upon which the dividend return is not limited. Also, in companies where preferred stock is issued, apparently in place of bonded indebtedness, there is commonly an accompanying issue of common stock which is open to public subscription.

We have also noticed that, especially in connection with the Massachusetts-trust form, there is a distinct disposition to issue a single type of security which is sold freely to all who are interested in its purchase. When we come to consider the reasons for the existing situation in this country, it would seem that perhaps the main cause for liberality to the public in the matter of securities offered is to be found in the fact that investment-trust securities are as yet relatively unknown and untried in the United States and there is considerable sales resistance to be overcome. In England, where investment-trust debentures are sold over the counter, as it were, there is such a steady demand for securities of this type that it is not necessary to make them unduly attractive to the investor, and it is, furthermore, entirely possible to preserve the cream of the enterprise for those who have fathered the trust and who ordinarily are foremost in its management. That history will repeat itself in the case of the American investment companies is highly probable. At the moment, however, it should be noted as a distinguishing characteristic that the American trust, while apparently more complicated in structure than the British, is really more advantageous from the standpoint of the average investor, as there is far more opportunity for the general public to get in on the ground floor than in the case of the foreign companies.

CAPITALIZATION OF BANKERS' SHARE COMPANIES

The capital structure of bankers' share investing companies is lacking in complexity and, in a sense, only limited as to the amount of capital involved by the extent to which the purchasing power of the investing public is attracted to the proposition. This results from the essential characteristics of the bankers' share investment trust. There is here no security issued by the investment trust itself, secured by its own underlyings, and based upon its individual credit. Instead there is simply a sale to the public of investment units, in

support of which certain definitely selected stocks must be purchased and placed in the hands of a trustee. These investment units are represented by securities bearing various denominations, as, for instance, collateral trust shares, diversified trustee shares, bankers' shares, investment-trust bankers' shares, investment-trust certificates, and various other titles. As a matter of fact, they all mean practically the same thing, and one example will readily explain the situation. Take, for instance, the investment-trust certificates issued by the California Oil Investment Trust, representing an investment in capital stock of seven California oil companies. These certificates are issued by the First Trust and Savings Bank of Pasadena, California, Trustee, against identical blocks of stock deposited with it by the Investment Bond and Share Company which acts as the manager and fiscal agent of the trust. These are collateral trust certificates representing full participating ownership in certain stocks held by the First Trust and Savings Bank as Trustee. The certificates are in 5, 10, 25, 50, 100, 500, and 1000 beneficial share denominations, in bearer, non-voting form with semi-annual coupons attached, payable February 1 and August 1.

As security for each thousand beneficial shares certified and outstanding, the Trustee must have received the following shares of common stock, viz.:

25 shares Associated Oil Company
10 shares General Petroleum Corporation
20 shares Pacific Oil Company
30 shares Pan-American Petroleum & Trust Company Class "B"
50 shares Shell Union Oil Company
25 shares Standard Oil Company (California)
30 shares Union Oil Company of California

190 total

This selected group of stocks, in the exact proportions above mentioned, forms the typical investment unit of the trust. The investing public, of course, is not compelled to purchase a trust certificate for 1000 shares representing the 190 shares of selected stocks which have just been described, but may acquire smaller participating interests in amounts from 5 shares up. Nevertheless, the 1000 share unit is the typical trust unit, and the structure of the investment company is based upon it. Obviously, the fiscal agent or managing corporation may go on multiplying these units indefinitely as long as purchasers can be found for them, without in any way affecting the financial

structure of the company; but each block deposited must be identical with every other block, and neither the Trustee nor the managing corporation has power to substitute other stocks for those which have been selected to comprise the typical trust unit. In this particular instance the deposited stocks must first be fully paid for and are then held for, and registered in the name of, the Trustee, under a trust agreement dated April 1, 1925. This agreement provides that the stock shall be held in trust for the sole benefit of the holders of California Oil Investment Trust certificates. All dividends on the deposited stocks are collected by the Trustee and distributed pro-rata twice a year to the holders of the certificates, without deduction, except that the Trustee may make deductions for taxes if ever required by law to do so.

The holders of 1000 beneficial shares may surrender them to the Trustee at any time during January and July and receive in exchange therefor the deposited block of stocks of the seven corporations. Each beneficial share represents a $\frac{1}{1000}$ interest in the above block of stocks; 100 shares represent $\frac{1}{10}$ interest, etc., etc. It will be easily understood that under this plan there is no reason for anything except the simplest form of capital structure. There is no issue of its own securities by the investment trust; there is no real power of free substitution among the underlying securities; and, therefore, there is little opportunity for profit. Even stock rights are sold by the Trustee and the amount derived therefrom added to the next semi-annual distribution to certificate holders.

There being no profit of a tangible character, there is no accumulation of reserves; and all that really happens is that, as sufficient money is obtained from the public by the managing corporation, previously selected stocks in definite amounts, constituting the investment units of the trust, are purchased for the benefit of the certificate holders and placed for safe keeping with the Trustee, where they remain in a frozen state until they are sold in unit blocks, or, as sometimes happens, are distributed upon demand, in kind and always in units, to certificate holders who desire to terminate the trust relationship.

It is hardly needful to say that, as a rule, bankers' share companies do not publish balance sheets or statements of financial condition, because by so doing they would disclose nothing really connected with the investment situation, in which the public is interested. Man-

agement being eliminated, all that the bankers' share company does is to sell to the public a practically unlimited number of trust units backed by selected and diversified securities. This plan is perhaps as fundamentally simple, from the standpoint of corporate structure, as any in existence. The operations of bankers' share companies are somewhat complex, but the financial set-up is extremely clear.[1]

[1] Investment Trust Survey, Albert Ottinger, Attorney-General, New York, pp. 45–49 inc.—(Summary).

"The rigid or fixed type of investment trust fund is created by agreement between a corporation, acting as depositor, and a trust company or other corporate trustee, acting in the capacity of trustee for the holders of the participating certificates. Many of these indentures are far from satisfactory from the standpoint of protecting the interests of the certificate holders.

"Some of their weaknesses are as follows:

"(*a*) There is inadequate protection for the certificate holder against the making of profits by the depositor corporation by putting securities into the trust fund at a higher price than these securities cost to the depositor corporation.

"(*b*) The very nature of the trust presents the possibility of the investor sustaining loss, even though temporary, if purchases are made during a 'bull market.'

"(*c*) Limitations on unlimited right to purchase securities by the investment trust may occasion loss if market is unable to absorb securities upon dissolution of trust.

"(*d*) Possible ability of manipulators to control the market.

"(*e*) In case of stock with an extremely narrow market, there is possibility of a 'corner' of the available floating supply.

"(*f*) While book value and earning power may remain small, inflated market due to demand for specific stock may occasion belief by investor that rise is due to investment possibilities.

"(*g*) No protection against an unwarranted spread between the market value of securities deposited in the unit and the price at which the participating certificates are currently issued to the public."

CHAPTER XIV

MANAGEMENT OF TRUST SECURITIES

GENERAL PRINCIPLES OF INVESTMENT WHICH SHOULD GUIDE ALL TRUST MANAGERS

Basic Soundness.—There is no element of magic connected with the management of an investment-trust organization. Even in England, where, to use the American vernacular, the public has long been "sold" as far as the utility of investment trusts is concerned, such organizations have been known to fail and to fail badly. Analysis of the underlying causes of each disaster revealed that the trouble had arisen from the neglect by the trust managers of some basic investment principle or principles with which they were doubtless well acquainted but to which they did not pay sufficient heed.

The principal argument advanced by American proponents of the bankers' share companies is the risk connected with management, and they pursue the simple, if somewhat unscientific, method of eliminating risk by eliminating management. It is important, therefore, to emphasize at the beginning of our discussion of this topic that the most vital quality in securities purchased for the trust treasury is basic soundness, or, as it is frequently called, the factor of safety. Just as the Golden Rule is an excellent guide for moral conduct, so a paraphrase of that great maxim applies with equal strength to investment-trust management. If the rule is adopted by the trust managers that they will not purchase for the trust treasury any securities which they would not be willing to buy with their own money, and if a further rule is adopted to the effect that no securities of any kind will be bought which the trust managers would not be willing to hold indefinitely as investments, there is little danger that the managerial policies will become radical, unsafe, or dangerous to the ultimate owners of the trust property.

This note of conservatism is not meant to preclude the taking of a reasonable business chance. It is not supposed that the trust funds will be invested without variation in Government bonds, municipal

loans, and absolute first-mortgage bonds. Indeed, diversification of investment, if properly carried out, will permit a limited amount of support to untried business ventures which seem to have in them the seeds of success; but, even with the aid of diversification of investment, real business risks must be sparingly indulged in by conservative trust managers, and the fundamental principle of basic soundness must prevail without serious question as far as the sum total of the securities in the trust treasury is concerned.

Possibility of Improvement.—British trusts ascertained long ago that the operations of the business cycle and changing conditions in the world's security markets made the accumulation of adequate reserves not merely desirable but actually necessary if an unbroken dividend record were to be maintained by conservatively managed investment companies. Experience also proved that while current dividends of satisfactory amount could be paid upon the securities by the trusts themselves, as a result of the difference between interest rates received from the underlying securities and the somewhat lower dividends paid to the trust's investors, nevertheless, this interest differential was not sufficiently large to enable conservative companies to accumulate, within a reasonable time, sizable reserve funds to meet the exigencies of changing financial conditions during periods of financial stress. It therefore became a matter of prime importance to find some reliable source from which to obtain an excess return that could be devoted to the accumulation of necessary reserves. This source the British managers found in the sale of improving securities. This is one of the great arguments in favor of the Anglo-American type of trust, the sale of improving securities having been purposely eliminated from the program of the bankers' share form. There is no doubt that, unless due care and restraint are exercised by the managerial authority, conservative dealing in underlying securities may gradually merge into speculation and in the end may bring about the most disastrous result. There is no need, however, that sales of underlying securities and consequent repurchase of substituted bonds and stock at lower prices should be conducted in any other way than along the lines of prudence and for the purpose of wise profit-taking. The records of British investment trusts, as reflected in this treatise, will abundantly prove that such a policy has been and is now successfully pursued abroad; and there is no reason why it could not be pursued with equal success at home.

We may then take it as a proper canon of investment for trust managers that not only should underlying securities be basically sound

when purchased, but in each instance there should appear to be a fair probability of improvement in market value. This, after all, means nothing more than that the various enterprises whose securities are obtained by the trust should be so situated economically that continued and increasing success would seem to be not merely a possibility but a reasonable probability.

This brings into play the crucial element of business judgment, which all trust managers should sedulously cultivate. It is true that no man can delve into the secrets of the future: the best-laid plans will continue to go wrong, and what seems a certainty to-day may become an improbability to-morrow. Times change and men with them, as the old moralist said; and more changes take place with the passing of human habits than are apparent in mere alterations of conduct. It is always interesting to trace the economic results of popular behavior, and they are often far-reaching in effect. The author has a good friend who had all of his patrimony invested in the business of making hair-pins; bobbed hair practically ruined him, and he is now selling coal for a living. One has only to interview men engaged in the leather business to realize how deeply their profits have been cut by the introduction of the sandal type of shoes for women; and, to complete the cycle of this argument, a considerable part of the difficulties which face the textile trade to-day probably flow from the fact that the young woman of the twentieth century has definitely, and, it is believed, finally, refused to array herself in the voluminous skirts of Queen Victoria's time. It is perfectly true that the scanty clothes of to-day cost much more than the draperies of the past; but this is of relatively little import to the cloth manufacturer, as by far the largest part of the profit goes to the artist who produces the dress.

It is also a fact that in the realm of transportation there are many factors which render the profits of railroads decidedly uncertain. The Interstate Commerce Commission has almost unlimited power; and at the present moment there is a discussion between the railroad managers and the Commission relative to the proper allowance for depreciation, which in the end will unquestionably have an important effect upon the future success of the country's network of railroad lines.

The public-utility field, while at the moment enjoying an unusual degree of prosperity, is also subject to variable returns. There is an interplay of influences, related to the maintenance of war rates and the settlement of the vital question of super-power, which, no matter

how these great questions may be decided, will one way or another intimately affect the future dividends of the great public service corporations of the United States. It is, therefore, utterly impossible for even the most astute and far-seeing trust managers to gauge, with more than a fair percentage of correct prophecy, the future success of the companies whose securities they buy. Here, however, diversification of risk is of vital assistance. In addition, by the exercise of experienced and considerate business judgment, a good average of successful forecasting may be attained. It is necessary, therefore, for management in the purchase of underlying securities to predicate such purchase on the reasonable probability of future success and market-wise improvement, as only in this way can sufficient funds be obtained to pay reasonable returns upon the trust securities and also accumulate necessary reserves.

Diversification of Risk.—1. *By type of security.*—Entirely apart from investment-trust management, the question as to which particular type of security gives the most reasonable opportunity for profit, combined with a good safety factor, has been and still is a bone of contention among leading financiers, economists, and the public generally. This ceaseless argument is well reflected among the investment trusts which have already been formed in the United States, and it seems to be a fact that there are more companies in America to-day which seek diversification of risk within the limits of a certain restricted type of investment security than there are in Great Britain. The tendency in England seems to be to encourage diversification as to type. While the same situation exists in the United States to a considerable extent, we have here more companies that restrict their investing to limited kinds of securities than are found elsewhere. For instance, the Investment Managers Company of New York, while empowered to invest broadly as to type, restricts itself as far as possible to investments composed of the common stocks of leading corporations, and the same is true of Incorporated Investors, which is a large and successful trust. On the other hand, we find investment companies such as the Bond Investment Trust and the Bond Investment Trust of America, whose policy is the direct antithesis of that just alluded to.

We also find investment companies with even more narrowly specialized fields of purchase, as, for instance, the Joint Stock Trust Certificates issued by Brooke, Stokes, and Company of Philadelphia under an investment-trust agreement. As to these Certificates, the house of issue quite frankly states:

Philadelphia Joint Stock Trust Certificates are evidences of participation in an investment trust consisting primarily of shares of stock of joint land banks. Investment of trust funds is limited to these stocks, joint stock land bank bonds and United States Government Bonds. It is intended that funds will be invested almost entirely in joint stock land bank stocks and other investments will be only temporary and incidental.

The author believes that, while an investing company may attain lasting success by limiting its investments to a single type of security, such limitation is opposed to the best and broadest interpretation of the principle of diversification, which is, after all, one of the main objectives of the investment trust.

Diversification, when applied to type of security, has certain distinct advantages. It is a proved fact that market conditions as to stocks and bonds seldom coincide; and a poor market for stocks may and often does exist when bond prices are relatively high. It is of distinct advantage, therefore, for the trust managers to be able to act opportunely in connection with market changes which affect security types; and management is definitely, though, of course, only partially, limited if either by law or by practice it is restricted in its purchase to one type of security.

2. *By type of industry.*—Diversification among various types of business activity is one of the most important elements of variation which trust managers have to consider. There are, of course, recurring periods of general depression; but, in a country as large and as economically powerful as the United States, possessing a wealth of natural resources and still drawing the great majority of its raw materials from its own confines, it is most unusual for any depression to be nation-wide to such an extent that proper diversification as to types of industry will not, at the least, greatly mitigate depressional effects so far as the trust investors are concerned. Take, for instance, the trust treasury of Incorporated Investors, as printed in connection with its balance sheet of May 25, 1927. The balance sheet shows securities in the amount of $1,333,942.75, and this item of securities is composed of the following stocks carried at cost, viz.:

Number of Shares	Name of Security
75	Aetna Life Insurance Company
400	American Gas & Electric Company
400	American Smelting & Refining Company
400	Atchison, Topeka and Santa Fe Railway
400	Atlantic Coast Line

Number of Shares	Name of Security
500	Consolidated Gas, Electric Light & Power Company of Baltimore
600	Continental Can Company
600	Corn Products Refining Company
400	E. I. du Pont De Nemours & Company
700	Electric Bond & Share Securities Corporation
100	First National Bank of Boston
25	First National Bank of New York
600	Fleischmann Company
500	General Electric Company
200	General Motors Corporation
700	Gillette Safety Razor Company
100	Guaranty Trust Company of New York
500	Mack Trucks Incorporated
400	New York Central Railroad
300	Norfolk and Western Railroad
150	Old Colony Trust Company of Boston
1000	Standard Oil Company of Indiana
1000	Standard Oil Company of New Jersey
400	United Fruit Company
100	United States Steel Corporation
500	Vacuum Oil Company
300	Westinghouse Air Brake Company
200	F. W. Woolworth & Company
700	Youngstown Sheet & Tube Company

A perusal of the foregoing list discloses immediately how well diversified the underlying securities of this trust are, with regard to type of industry, although it will be noted that they are entirely limited to one type of security, namely, common stock. In one treasury the trust managers have gathered rails, public utilities, bank stocks, motor stocks, oil stocks, and a variety of well-selected industrials. There is also an excellent geographical differentiation. In considering a collection of securities like this, it may be said with assurance that if even a fair majority of these companies should get into serious difficulties the price of United States bonds and municipal loans would be greatly reduced. Only an improbable panic of national or international proportions or a devastating war would be likely to affect seriously the basic soundness of the underlying securities mentioned above.

It may be noted, however, that a bad general condition of the stock market might temporarily affect the earning power of this group of underlyings. Thus, by reason of the lack of diversification as to type of security, the trust management might find that it had a rather unnecessary problem to solve. It is also probable, however,

that, taken as a whole, the contents of this trust treasury, given a reasonable period of time and fairly successful business conditions, would appreciate in value to a greater extent and with more rapidity than a list that contained a considerable diversity of security types.

There is in some instances a distinct tendency to limit diversification within the bounds of a single industry. This situation is not peculiar to America, although relatively unusual in England. We do, however, find certain examples of it abroad. For instance, the Stock Conversion and Investment Trust, Ltd., has confined itself to acquiring and dealing in securities of British railways, and its long history would seem to indicate that this very limitation has been to a considerable degree accountable for the fact that it has not been a conspicuous success among the British trusts.[1]

In America, we find this limitation as to type of industry particularly noticeable in the case of financing trusts whose object is to acquire a controlling or substantial interest in some or all of the corporations from which their underlying securities are obtained. Thus, the American Super-Power Corporation owns a substantial interest in the following companies:

Public Service Corporation of New Jersey
Commonwealth Power Corporation
Penn-Ohio Securities Corporation
United Gas Improvement Company
Southeastern Power and Light Company
Electric Power and Light Corporation
United Illuminating Company
United Light and Power Company
Consolidated Gas, Electric Light and Power Co. of Baltimore
Middle West Utilities Company
American Gas and Electric Company
Brooklyn Edison Company, Inc.
Detroit-Edison Company
Columbia Gas and Electric Corporation
American Power and Light Company
Electric Bond and Share Securities Corporation
Southern California Edison Company
American Foreign Power Company, Inc.

Unquestionably, we have in the treasury of this trust excellent geographical diversification, and the company's balance sheet discloses the fact that there is also diversification as to type of security, some of the underlying investments being bonds and some stock. But we do not have diversification as to type of industry, and it is only

[1] See Chapter X, p. 119, infra.

necessary to compare this list of holdings with that of Incorporated Investors in order to realize the inevitable limitation which such concentration of risk in a single industrial field is certain to impose. In the case of a trust treasury where rails, utilities, and industrials are all represented, the difficulties and dangerous problems of any particular field do not assume vital importance because the principle of diversification minimizes their effect upon the trust holdings.

But, to be specific, let us consider the effect upon the above-mentioned list of securities of the American Super-Power Corporation of a general nation-wide campaign to reduce the rates of public service corporations. Such a campaign, in view of the high rates generally obtained during the war period, is at least a possibility. Furthermore, there is another dark cloud in the sky for those interested in utilities. Gifford Pinchot and an active and vociferous following are vigorously maintaining an active campaign for what they are pleased to call "giant power," which in its essence seems to be a strong movement to limit the power and the profits of public service corporations. Our National Congress being peculiarly susceptible to organized minorities, the degree of success which this group of earnest agitators will achieve in this regard is quite problematical. Therefore, it would seem to be entirely clear that diversification as to type of industry has much to recommend it and, so far as can be perceived, nothing to condemn it.

3. *By geographical distribution.*—We have already seen, in examining the underlying securities of Incorporated Investors and the American Super-Power Corporation, that one of the outstanding principles of diversification is geographical spread of risk. This principle is even more thoroughly carried out by British trust managers than it has been up to the present time in the United States. There was a great deal of talk immediately after the War about the necessity of America's using her financial power and her newly acquired status as the great creditor nation of the earth to rehabilitate the emaciated industries of war-torn Europe; and, unquestionably, the Edge Act was passed on the theory that such a national movement would take place. It is common knowledge that the provisions of the Edge Act have not been employed to any considerable extent for the purpose of exporting American capital abroad. While several important houses of issue, notably Dillon, Read and Company, have formed financing investment trusts for the purpose of acquiring foreign securities, and while these companies have been and promise to be successful, nevertheless, one would not have a correct conception of

the investment-trust movement in American finance if one supposed that foreign investment was more than a subordinate objective in the mind of a majority of American trust managers.

The reasons for this are not difficult to understand. Although almost a decade has passed since the Great War, Europe is still in a political ferment, still economically weak, and neither German reparations nor the settlement of debts to the United States have progressed sufficiently to assure the world of fairly satisfactory results. It should be carefully borne in mind that while, relatively speaking, large sums of money have been invested abroad by citizens of this country since the close of the War, such investments have been in large part made by purchasing foreign government obligations of various kinds, while the amount of money placed by the United States in private enterprises abroad has been relatively small.[2]

There is no need, however, for American trust managers to export their funds in order to obtain efficient and satisfactory geographical diversification. The United States is an enormous country with forty-eight separate commonwealths and tremendous natural resources, and the outstanding vocation of its people is business enterprise. It is true that we are in an era of mass production and extreme standardization; but, while these have their drawbacks, they also connote national markets, high wages, and stimulation of the country's great purchasing power. There is in America a great variety of climatic conditions and a diversity of races, and these variations bring about a diversity of needs and periods of seasonal production. We have national industries, such as the manufacture of the Ford cars and the products of the International Harvester Company, which are so widespread that geographical considerations have little to do with their success or failure.

On the other hand, we have in the United States a great variety of essentially different communities with different wants and different customs. Standardization of nationally marketed goods is often hastily construed as bringing about a standardization of racial types and popular habits, which is not in any way involved. For instance, take a German-American citizen of Reading, Pennsylvania, directly descended from a Hessian soldier who came to fight us and was benevolently assimilated after the Revolution, and compare him with a citizen of Springfield, Massachusetts, directly descended from the Puritan immigrants who founded and settled the New England coast.

[2] America Comes of Age, André Siegfried, p. 225.

These two men will in all probability each own a Stetson hat, a Ford car, and a Hart, Shaffner, and Marx suit of clothes; but the Reading man and his friends will be loyal supporters of a local pretzel factory and will continue to drink the nearest beer they can obtain, while the Springfield citizen will think something is wrong with Sunday breakfast unless there is a huge crock of baked beans set before him, and will in all probability be anxious to own an Indian motor-cycle manufactured in the neighboring city of Worcester. He will also, over a twelve-month period, probably buy twice as many books as the Reading man.

So it may be perceived that even in America, with its policy of economic standardization, geographical distribution is of distinct advantage, not only because it takes toll of a large variety of local needs but also because in this land prosperity is never uniform and local conditions enter very largely into the picture at all times. Take, for instance, securities owned by the First Investment Company of Concord, New Hampshire, on April 1, 1926. This is an old and an experienced trust, although small in size—one of the oldest in the United States, being now eleven years of age. On the above date the securities in its treasury covered twenty types of business enterprise, such as public utilities, electrical, financial, insurance, railroads, steel, chemical, harvesting machinery, chain stores, can manufacture, copper, oil, shoes, etc., and included interests in bonds and stocks of the following corporations: Atchison, Topeka and Santa Fé Railway; Baltimore and Ohio Railway; New York Central Railway; Southern Pacific Railway Company; United States Steel; Consolidated Gas of New York; Western Union Telegraph; Continental Insurance; Westinghouse Electric; Kennecott Copper; Texas Company; Vacuum Oil; Standard Oil of New Jersey; Union Carbide and Carbon; Endicott-Johnson Company; Continental Can Company; International Harvester Company; and United Drug Stores.

It will readily be perceived that the foregoing list, in the first place, has a well-diversified number of railway securities. Traffic is not always evenly profitable over a large country such as ours; and here we have all points of the compass represented by leading roads, so that comparative inactivity in one locality may and probably will be readily compensated by an unusual amount of transportation business in another part of the United States. We then note a number of companies whose business is national in extent. Therefore, the principle of compensation because of geographical diversification works for the benefit of the trust investor within the confines of each

company whose business is national in extent, as, for instance, Western Union Telegraph, Westinghouse Electric, Vacuum Oil, Standard Oil of New Jersey, and International Harvester Corporation. The inclusion of a corporation like the Kennecott Copper Company gives a slight international flavor to the treasury, not only because of the character of its business but because it involves South America.

It would therefore seem to be important for trust managers to pay close attention to the principle of geographical diversification and to avail themselves of its beneficial effects with reasonable care. At the same time, they should remember that geographical diversification, in connection with American investment-trust enterprises, does not necessarily mean the exporting of American money to foreign countries, although that particular field offers its own rewards and will undoubtedly be cultivated much more in the future than it is at the present day.

Purchase Price, Yield, and Marketability.—While not as fundamental as the safety factor or diversification of risk, the questions of price, yield, and marketability should all be carefully considered by trust managers when purchasing securities for the trust treasury. One important feature of diversification of investment is the opportunities it gives for advantageous purchase and sale of securities. Diversification of type enables management to buy stocks when they are low and bonds are high, and *vice versa.* Diversification of industry permits the acquisition of good unseasoned stocks and bonds at relatively low prices and the sale of the same securities later at considerable profit, when their worth has been proved; while geographical diversification of risk is important because it enables the trust manager to utilize his funds just as a wise general utilizes his troops and sends them to that part of the front at which they will prove most useful. There is always some part of the world, and nearly always some part of the United States, where securities may be purchased at advantageous figures; and, *per contra,* it is equally likely that in some part of the world or of America there will always be an opportunity to dispose of various securities in a profitable way. Hence we may consider that it is an important part of the duty of management to watch with care the varying security prices and buy and sell in the markets best suited to the purposes of the trust.

The question of yield, as related to investment-trust affairs, is not essentially different from the same question as it arises in other financial situations. The best yield consistent with the safety factor and reasonable marketability is the one to be desired and obtained

as frequently as possible. The exact rate of return will vary with the conditions of the international and national money market and also in relation to exchange and the purchasing power of the dollar, so that it would be futile to fix any arbitrary rate or rates as trust objectives.

Marketability, however, is of considerable importance, especially to the managers of the Anglo-American or financing trusts. Without reasonable marketability, opportunities for profit-taking and accumulation of reserves will not arise; and, furthermore, especially in connection with trusts investing their funds principally in common stocks, situations are likely to occur where it will be highly desirable to realize on a considerable portion of the trust investments and reinvest the proceeds either in other stocks at more favorable prices or, as sometimes happens, in call loans or government securities. Marketability, however, is a canon of investment which should be broadly interpreted and carried out with discretion and due consideration of particular sets of circumstances.

It is always important that no large amount of the funds of an investment trust should be "frozen" except, of course, in the case of bankers' share companies, which in this regard are really intentional cold storage plants. Nevertheless, it not infrequently happens that opportunities present themselves to invest a portion of the trust funds in unseasoned securities which, careful analysis reveals, contain elements of considerable future profit. In such cases it is the part of wisdom to buy for a rise and hold for a period of time necessary to take advantage of improvement in the investment. The prospect of such improvement should be considerable, but, given these factors, marketability may often be disregarded in favor of a reasonable opportunity of future gain. It is generally desirable, however, that the average purchase for the trust treasury should, in addition to the other factors mentioned above, be fairly marketable under normal conditions, and it is believed that wise management will always keep this factor well in mind.

Reduction of Tax Liability.—There is a situation peculiar to investment trusts in the United States which is a persuasive argument in favor of investment trust securities, viz.: the elimination of estate and inheritance taxes in connection with trust securities. The individual investor, if he has any considerable amount of money to invest, and if he is at all conservative and thoughtful with regard to his investment policy, seeks in his own way to obtain diversification among his personal securities; but in doing so he runs the risk of

leaving numerous troublesome tax questions to confront his heirs and executors at the time of his decease.

It is unfortunately true that the payment of inheritance taxes or estate levies to the commonwealth where the decedent had his legal home in many instances does not prevent the imposition of additional taxes of a similar character in the various states where the corporations whose securities he possessed have their domiciles. The author had personal experience of this condition of affairs a few years ago, when the estate of a client he represented paid an inheritance tax to the State of Pennsylvania on all of the decedent's securities and subsequently was compelled to pay another tax on a large part of the same securities to the State of Colorado. Representations to the proper officials of both states merely elicited the information that neither State recognized taxation of the securities in question by the other, and that this lack of mutuality made the imposition of double taxes certain and inevitable. To the man of small or moderate means, such an unjust condition of American tax laws may cause annoyance and occasionally relatively heavy loss; but in the case of the wealthy man, with a long list of geographically diversified stocks and bonds, it may mean that his legal representatives will be mulcted of thousands of dollars, and in the end those near and dear to him will suffer unmerited loss as a result of a situation brought about by the very fact that he employed during his lifetime the otherwise admirable and effective principle of diversification.

It should be noted, however, that the usual form of investment trust meets this situation excellently. A security owned by the investor is the trust's security, except in the case of certificates of participation related to definite trust-deed obligations, and at his death there is one set of taxes to be paid and no more. He does not personally own the underlying securities of which the trust treasury is composed. All he possesses is an obligation of the investment trust, supported and collateraled by the treasury securities. The trust itself does not die, and therefore pays no inheritance taxes on its own holdings; and, as its shareholders or subscribers pass away, their ownership of the trust's own obligations avoids, though it does not evade, the annoying tax complications which arise, as has been explained, all over the United States.

ADVANTAGES OF THE INVESTMENT TRUST IN OBTAINING ITS OBJECTIVES

Expert Staff of Analytical Economists and Financiers.—The aim of every investment-trust organization in which management plays a leading part should be to construct, as soon as possible, an efficient and experienced organization of financial and economic experts to handle the vital matters of investment and reinvestment which spell success or failure for the trust. In Great Britain, as is well known, investment trusts had their beginning in the private offices of chartered accountants and family solicitors. In the early part of the past century and long before that, expert investment advice was sought in such places. In the United States, however, different conditions considerably altered the situation, and we find that the average investment trust in America to-day has had its inception in the office of some investment banker, because it is to the investment bankers as a class that Americans have turned for many years for financial counsel and guidance. Thus we also find that many investment trusts to-day in this country have no separate managerial group, and, in many cases, no statistical department, but depend entirely upon the organization of the investment banker who has promoted them and continues to manage them after incorporation.

Decided danger lurks in this state of affairs, and it is believed that it was this danger, along with other considerations, which influenced the New York Stock Exchange to pass the Resolution of Warning regarding investment trusts on July 24, 1924. Generally speaking, the investment bankers of America are neither unbiased nor unprejudiced with regard to the securities they sell to the public. They are all more or less enmeshed in our great national system of underwriting syndicates, which places all but the largest houses more or less at the mercy of their more powerful brethren; and the inevitable result is that most houses of issue have in their own safe deposit boxes securities which they have either been unable to dispose of satisfactorily or which they find temporarily frozen in their hands. Human nature being as it is, the temptation to dump at least a certain amount of these slow or perhaps dubious stocks or bonds into the treasuries of affiliated investment trusts is undoubtedly a real thing; and it is to the credit of the investment bankers of America that up to the present time comparatively few houses have succumbed to the temptation in question. Nevertheless, the possibility is always present, and it constitutes a danger to be reckoned with and as far

as possible avoided. The way to avoid it would seem comparatively easy, and lies along two paths. An investment trust should either build up its own analytical, statistical, and operative organization, or should enter into a contract to obtain such service from a fiscal agent or investment-trust operating company which has no connection with it except that of a service contract.

One of the great advantages of investment trusts is the economical way in which they can be efficiently operated. Expert financial management does not need many minds; in fact, it is better performed by a few. Its demands are qualitative and not quantitative. It does require that a few men with investment knowledge, analytical ability, and hard common sense should give all their time to watching the investments in the trust treasury and buying and selling these securities in the exercise of a wise discretion and as the result of constant analysis, observation, and careful attention to the daily, perhaps hourly, changes in the economic and financial situation of the country and the world at large.

In Great Britain most of the successful trusts are operated through the agency of a managing secretary and a few clerks and accountants. In this country it is undoubtedly necessary to employ more people; but, even so, the number should not be great, and every care should be devoted to developing an experienced and efficient force so that each trust may be operated in the most profitable and conservative way. So much for the daily routine of trust operation.

There is, of course, more to wise trust management than this. Somewhere in the picture there is always a set of trustees, a board of directors, or some group agency which gives its collective wisdom and experience, not in an administrative but in a consultive capacity. This group decides questions of investment policy which ought not to be left for decision to one or two men. The combination of experienced full-time operation plus experienced group supervision and advice results in the ideal investment-trust management which has proved so effective in England over a long period of time.

The other method of insuring efficient investment-trust management is through the fiscal agent or the investment-trust operating corporation. This is not a new idea but has proved to be successful in England, where perhaps the most outstanding example is Robert Fleming & Co., which really acts as an operating corporation for a number of leading investment trusts. The British Trusts Association, Ltd., is another organization which acts as an underwriting group for investment trusts and mobilizes the funds of its member

trusts for participation in large investment propositions, the profits being divided proportionately when they are obtained.

In the United States the only analogue, up to this time, of these British organizations is the American Founders Trust, promoted by the agents who control the International Securities group of investment-trust companies. The analogy between the American Founders Trust and the Engineering Corporation, so well known to American finance, is quite close.

In the utility field, corporations such as Stone and Webster, Billesby and Company, and Day and Zimmerman have for years entered into contracts with various public service corporations to direct and even carry on their business for them in return for a fixed fee. This idea would seem to be very similar to the theory on which the American Founders Trust is based. In the most recent prospectus of this trust, its purposes and methods are explained as follows:

It has been the desire of the trustees to build up an investment organization second to none in the world with facilities for immediate examination and report concerning investments of every character in every stable country. The trust has made great strides over the past year in setting up such an organization, and 46 officers and employees are now engaged in investment analysis or research. Many additional banking contacts have been made abroad, new international investment markets have been entered, and the personnel employed in the New York office of the trust for the analytical appraisal and operating divisions has been increased. The Economics Division has been separately organized. Its function is to conduct wide research and watch for securities out of line by country, commodity and industry, and the consequent opportunities for buying at attractive price levels.

The economists of American Founders Trust study the general situation of the investment market in each country under consideration, examining such factors as interest rates, investment levels, political conditions, commercial conditions, commodity values and foreign exchange rates. They follow the fortunes of important industries both from a national and international standpoint. Leaving the examination of particular stocks to the analysts, they call to the attention of the Investment Committee markets where current price levels offer probable opportunities for investment or point out conditions indicating future decline.

The Analytical Division includes the following sections, each under the direction of an analyst intimately familiar with the region:

American Securities
British and General
Central European
Western European
Scandinavian
South American
Oriental

In their particular fields these specialists follow general trends of security prices and analyze specific securities, so that they can assist the Investment Committee in determining what to buy or sell. They have had wide experience with foreign securities and a number of them are natives of the countries whose securities they examine.

The trust maintains correspondent banking relations with 38 strong institutions in 16 countries through which foreign investment purchases are made. With few exceptions each is the leading bank in its respective country and most of them are correspondents of the large New York banks.

Unquestionably, the foregoing indicates the methods which should be employed to operate a successful investment trust. It is quite true that a much less complex organization could be efficiently employed by many American investment trusts of moderate size, particularly where foreign investments do not form a part, or at least a considerable part, of the trust's underlyings. There is, of course, an advantage to be derived by a small trust through a management contract with an operating corporation formed upon the American Founders Trust plan, the compensatory disadvantage being that it is always questionable whether the same degree of personal attention and enthusiasm will be given to trust management by an operating organization which has no personal interest in the individual problems of the trust save the general objective of rendering efficient service.

Management of this character is the so-called expert management which forms one of the two great objectives of the investment-trust device. A successful business man of large or moderate means may conceivably diversify his personal investments in an effective way; but, unless he is an exception to the rule, he will be unfitted by experience and training adequately to manage the securities in his own strong box. Such technical operations as a close observance of the business cycle and a scientific forecast of its probable results will be quite beyond him, nor will he be able properly to analyze and take advantage of the constantly changing, and indeed almost kaleidoscopic, conditions of finance and economics which form such vital features of the national and international world.

It will be seen when we come to examine the earnings of investment trusts that the maintenance of adequate operating organizations for such trusts is, relatively speaking, quite economical. This is another strong argument in favor of the investment-trust organization.

Mobilization of the Purchasing Power of Many Investors.—For a number of years the ability of Henry Ford to sell a serviceable automobile at a low price has caused considerable wonder to the average mind, and the merchandising ability of such a national organization as Sears, Roebuck, and Company has also given rise to amazement on the part of the general public. Of course, the explanation is that both of these organizations possess such enormous purchasing powers that they can buy their raw materials at relatively low prices and under exceptionally favorable conditions, because these advantages always accrue to the large purchaser. As a result of such favorable conditions, they are also able to retail their manufactured products at a price which cannot be equaled or even approached by smaller competitors.

The same general principles apply to the operation of investment trusts and, of course, increase in strength as the purchasing power of a trust continues to enlarge. The individual investor, although he may be a very wealthy man, can hardly obtain such favorable opportunities for investment as an investing company of moderate size can expect to receive. Although he may be a large buyer, he is an occasional purchaser compared with a fair-sized investment trust with an average degree of activity. An investing company is necessarily and constantly in the market, buying or selling with the funds of its investors. This means, first of all, that it buys at wholesale prices, and furthermore, that it obtains frequent opportunities to enter underwriting syndicates where profitable commissions are obtainable for a minimum amount of risk.

Moreover, when it desires to sell it knows where and how to dispose of its financial wares for the best prices obtainable. As it grows in strength its funds constantly increase in amount, and as its purchasing power multiplies its ability to obtain the most favorable terms either for purchase or sale of securities measurably increases, The investment trust, by mobilizing the purchasing power of many investors and placing it under skilled management, performs a unique service for the individual investor which he is utterly unable to do for himself.

Turnover of Securities and Accumulation of Reserves.—We have already discussed the necessity of a trust management's buying securities which may reasonably be expected to appreciate in value. We should now realize that, subject to the qualifications already observed in connection with such a transaction, the frequent turnover of securities in the treasury of an investment trust does not constitute

speculation if there is a good, common-sense business reason for every sale and purchase that is made. Indeed, it is the principal objective of trust management to observe financial conditions so closely that profits may be taken at opportune times and weak securities disposed of before a loss occurs. Furthermore, it is only by the realization of profits through advantageous disposal of underlying securities that necessary reserves may be accumulated by the management of an investment trust; and, while it is by no means necessary that all profits so derived should be credited to Reserve Account, it is important that a considerable part of them should be so disposed of.

INVESTMENT POLICIES OF THE PRINCIPAL TYPES OF INVESTMENT TRUSTS COMPARED

After what has already been observed with regard to the management of investment-trust securities, it may prove interesting to note the general trend of investment policy displayed by the four leading types of investment trusts so far developed in this country.

The Anglo-American investment trust is based upon the two leading principles of management and diversification of security, these two principles being equally important in the operation of such a trust. It is therefore natural and necessary for an investment trust of this type to organize a capable managerial staff as soon as it is possible to do so. This staff may be supplied by the house of issue or by the fiscal agent, or as is usually desirable, it may form a separate organization connected with the investment trust and with it alone. A management of this kind will proceed to put into effect the various investment canons already commented upon, will endeavor to attain adequate diversification of risk in connection with its securities, and will make the attainment of such diversification its leading policy.

Exactly the same methods and principles will govern the management of a financing trust, except that its diversification will probably be limited by the fact that, in order to obtain controlling interests in its underlying securities, it will inevitably reduce the number of companies in which its funds are invested. It is also true that financing investment trusts are apt to limit their operations within the bounds of a particular type of industry.

Trusts resembling Investment Managers Company will employ the same general methods and rules of investment as the two preceding kinds of investment trusts. Indeed, they will perhaps exercise more

meticulous care in the selection of securities for the trust treasury, because of the fact that their own corporate organization does not intervene between the investor and the securities purchased with his money. Instead, the investment trust of this type is merely the manager of a group of securities owned directly by those contributing the money for their acquisition; hence, any mishap is more directly felt by the individual investor, for it affects his personally owned security and not merely a constituent underlying security between which and himself a share or shares of investment-trust stock is mercifully interposed.

Finally, it should be noted that the bankers' share companies have no continuing investment policy whatever. With them the work is done before the child is born. Original selection having been made of a group of securities which go to compose the typical investment unit, nothing remains except, in some cases, a limited power of substitution in case of financial disaster to one or more of the underlyings composing the investment unit of the trust. We may, therefore, concede that the bankers' share company forms no part of the picture when we are considering, as we have considered in this chapter, the investment policies and managerial responsibilities of investment-trust organizations.

SPECIFIC STANDARDS OF DIVERSIFICATION

It is not necessary, nor would it be profitable, to examine in detail all of the standards of diversification of the leading American investment trusts. It may be interesting, however, to examine the standards of a number of important investing companies with the thought in mind of tracing certain tendencies which are observable in connection with the evolution of standards in this country.

Unquestionably, there are two lines of policy in connection with diversification. Some trusts feel that it is a guarantee of good faith and careful management to constitute numerous and sometimes complex standards and to tie the hands of the managerial power to a considerable extent. By pursuing such a policy, the prospective investor knows in advance and quite definitely the limitations assumed by the trust management with regard to the investment of his funds. He knows, for instance, what percentage of the trust capital will be invested in the different types of security, and also what percentage will be invested in various kinds of industry. In addition, he is often informed as to the percentage which will be invested in the securities

of the United States and of foreign countries. Undoubtedly, there is a certain advantage in such a clear definition of the trust policy relating to the diversification of investments.

On the other hand, investment conditions, especially in this country, change with great rapidity, and it would seem to be true that as the evolution of American investment trusts proceeds, there is a growing movement among them to give as much power as is reasonably wise to the management of the trusts, so that within certain broad limits diversification policies may be altered, amended, and revised as general investment conditions change from month to month and from year to year. Of course, all that has been said applies only to investment trusts where the management has investing power. It is not to be considered as relating at all to bankers' share companies.

We may also note that a somewhat different situation with regard to diversification exists when we are dealing with companies that admittedly invest their funds in a particular type of industry. In such cases, diversification is limited from the beginning and can only be planned in connection with a spread of risk of a geographical nature and also perhaps related to diversity of security types.

Dealing with the first group of companies, most of which are of the Anglo-American type of investment trust, we find that perhaps the most complex set of rules and regulations is that adopted by the Financial Investing Company of New York, Ltd. The following excerpts from these rules are taken from the By-Laws of the Company, viz.:

ARTICLE VI

Investment of Assets

Section 1.—Pursuant to authorization or direction of the board of Directors, the Executive Committee and/or the Finance and Investing Committee, the officers of the Corporation shall keep the assets of the Corporation invested in securities and other property in accordance with the provisions hereinafter in this Article VI set forth. The Corporation shall not purchase or sell securities otherwise than in this Article VI provided, nor shall it purchase of sell securities except for delivery upon payment therefor. The Corporation shall not engage in the practice known as "selling short," or in any other practice incompatible with the bona fide investment and reinvestment of its assets.

Required Investments

Section 2.—The Corporation shall keep and maintain assets consisting of (1) cash, (2) bankers acceptances and/or bank certificates

of deposit, and/or (3) investment securities (as hereinafter defined) of a market value equal at all times to the aggregate of the total par value of its outstanding capital stock and the total principal amount of its outstanding bonds and other obligations issued pursuant to Section 6 of this Article VI. The Corporation may invest all other funds and assets at any time belonging to it in such securities or other property as the Board of Directors, the Executive Committee or the Finance and Investing Committee may authorize or approve. Investment securities, as used herein, must be securities listed upon some recognized stock or bond exchange and must meet the requirements hereinafter in Section 3 of this Article VI set forth.

Standards of Value

Section 3.—No securities shall be deemed to be investment securities or eligible for purchase as such by the Corporation unless:

(*a*) The nation or country in which such securities shall have originated shall have demonstrated its financial stability and its recognition of private property rights or unless such securities shall be guaranteed both as to principal and income by some governmental authority, corporation or organization whose own securities would be eligible for purchase pursuant hereto as investment securities; and

(*b*) The governmental authority, corporation or organization issuing such securities or every component part thereof shall have been established for a period of at least three (3) years; and

(*c*) Complete and trustworthy information shall be available with respect to the history, management, assets, earnings and income of the governmental authority, corporation or organization issuing such securities; and

(*d*) Such securities shall be fully paid and non-assessable when issued and shall not entail double or unlimited liability; and

(*e*) Being bonds, notes or other obligations secured by a first lien upon marketable securities, unless the indenture under which they are issued requires the maintenance at all times of the collateral at market value of at least One Hundred Ten Per Cent (110%) of the total issue outstanding; and

(*f*) Being bonds, notes or other obligations not eligible for purchase pursuant to paragraph (*e*) above, secured by a first mortgage on real and/or personal property, unless the book value of the security applicable thereto shall be equal to at least One Hundred Fifty Per Cent (150%) of the purchase price; and

(*g*) Being bonds, notes or other obligations (not eligible for purchase pursuant to paragraphs (*e*) and (*f*) above) secured or unsecured, unless the book value of the assets of the issuer applicable thereto shall be equal to at least Two Hundred Per Cent (200%) of the purchase price; and

(*h*) Being preferred stocks or shares, unless dividends thereon at the rate specified therein shall have been paid when due for a period of five (5) years next preceding the purchase thereof or unless the book value of such stocks or shares is at least Two Hundred Fifty Per Cent (250%) of the purchase price: and

(*i*) Being common stocks or shares, unless dividends thereon at a rate equal to at least Four Per Cent (4%) per annum of the purchase price shall have been regularly paid for a period of Five (5) years next preceding the purchase thereof or unless the book value of such stocks or shares is at least Two Hundred Fifty Per Cent (250%) of the purchase price.

Standards of Diversifications

Section 4.—The employment of the assets of the Corporation required to be kept and maintained pursuant to Section 2 of this Article VI (hereinafter called Investment Assets) in the purchase of investment securities shall be subject to the following restrictions:

(*a*) Not to exceed One Per Cent (1%) in amount of the Investment Assets may be at any time invested in any one security; and

(*b*) Not to exceed Seventy-Five Per Cent (75%) in amount of the Investment Assets may be at any time invested in the aggregate in securities originating in the United States of America: and

(*c*) Not to exceed Fifteen Per Cent (15%) in amount of the Investment Assets may be at any time invested in the aggregate in securities originating in any other nation or country; and

(*d*) Not to exceed Thirty Per Cent (30%) in amount of the Investment Assets may be at any time invested in the aggregate in securities issued by banks, insurance and other financial institutions; and

(*e*) Not to exceed Thirty Per Cent (30%) in amount of the Investment Assets may be at any time invested in the aggregate in securities issued by railroad, land and marine transportation companies; and

(*f*) Not to exceed Thirty Per Cent (30%) in amount of the Investment Assets may be at any time invested in the aggregate in securities issued by public utility companies; and

(*g*) Not to exceed Thirty Per Cent (30%) in amount of the Investment Assets may be at any time invested in the aggregate in securities issued by industrial companies; and

(*h*) Not to exceed Fifty Per Cent (50%) in amount of the Investment Assets may be at any time invested in the aggregate in securities issued by governments, states, municipalities or other political subdivisions thereof; and

(*i*) Not to exceed Twenty Per Cent (20%) in amount of the Investment Assets may be at any time invested in the aggregate in securities issued by organizations engaged in any other kind of enterprise or business.

Required Sales

Section 5.—In case any investment security owned by the Corporation shall become at any time ineligible at that time for purchase by the Corporation under the restrictions hereinabove in Section 3 of this Article VI set forth or shall be for any reason withdrawn from listing upon a recognized stock or bond exchange, the Finance and Investing Committee, the Executive Committee or the Board of Directors shall immediately order the sale and disposition of such security as soon as possible without sacrifice of value and in any event within a period of six (6) months thereafter.

We may note, after reading these rules, that, in the first place, the character of the Company's assets is definitely provided for, and in addition there is an excellent rule which requires that investment securities owned by the Company shall be listed upon some recognized stock or bond exchange. This rule automatically gives the investor the benefit of a double check upon his security values, and the author believes that it would be well if such a requirement were generally adopted by American investment trusts.

Taking up standards of value as set forth in the Company's by-laws, it is easily seen that the purpose of the Company is to indulge eventually in world-wide investment. Therefore, although the rules applying to international securities are perhaps necessarily in the nature of generalizations, nevertheless, they explicitly phrase a general conservative investment policy regarding foreign investments. The other rules and regulations relating to standards of value provide certain protective percentages for the benefit of the ultimate investor in connection with the purchase for the treasury of various types of bonds, stocks, notes, and other obligations.

Let us now look at Section 4 of the Company's by-laws, which deals with "Standards of Diversifications." Again, we find that the percentage system is liberally employed. The most interesting point, perhaps, is the general allocation of 75 per cent of the Company's investment assets to the domestic market. This would seem to indicate the investment tendency, already noted on the part of American trusts, to develop through the original purchase of home securities and to extend operations later on to the foreign field. We may fur-

ther perceive that these percentage rules provide for all three kinds of diversification which we have already commented upon: namely, diversification by type of security, type of industry, and geographical distribution of risk.

Passing finally to Section 5, we find a mandatory provision for the disposition of securities in the Company's treasury that fall below the Company's standards, and for the substitution of securities that are up to standard as soon as this may reasonably be effected, or in any event within a period of six months. This is an excellent provision and one that might well be copied by other investment trusts.

Summarizing the standards and diversification rules of this Company, it would appear to be an excellent example of that type of trust which is based upon a definitely outlined investment policy with full publicity of its provisions to the world at large. In the present state of American trust evolution, this is unquestionably a guarantee of good faith and careful forethought on the part of the trust management, and, although it may be somewhat hampering at times to those directing the fortunes of the Company, it cannot fail to make a strong appeal to the investing public.

The American Bond and Share Corporation of Bridgeport, Connecticut, operates an investment trust very similar in structure and management to an ordinary collateral trust mortgage. There is an agreement between the American Bond and Share Corporation and the City National Bank of Bridgeport, which acts as Trustee, under the provisions of which the Company issues 6 per cent first lien collateral secured convertible gold bonds, depositing the investment securities, purchased with the proceeds derived from the sale of such bonds, with the City National Bank as Trustee—as collateral security for the bonds so put forth. Among the provisions of this trust indenture we find the following paragraph, which gives briefly the Company's standards of value and diversification, viz.:

ARTICLE II, SECTION 2

The Company covenants that no bond shall be so authenticated and delivered by the Trustee unless at the time of the authentication and delivery thereof, (*a*) there shall be deposited with said Trustee in cash or securities, or both (taken at the then market value thereof), an amount equal to at least 115 per cent of the aggregate principal amount of such bonds secured hereby; (*b*) The securities so deposited shall be of the following classes and bearing the proportions to the

entire amount of securities so deposited, except as hereinafter provided—Bonds, Bank and Insurance Stocks not less than 60 per cent; Preferred Stocks, not more than 25 per cent; Dividend-paying Common Stocks, not more than 15 per cent.

There is also a broad substitution clause in the trust indenture which gives the Company the right to withdraw any deposited underlying securities at any time and to substitute therefor securities of equal value, provided that at the time any such substitution is made the officers of the Company shall file a certificate with the Trustee to the effect that there has been no diminution in value or departure from the Company's standards in connection with the substitution so made. After commenting upon the rather iron-clad standards of the Financial Investing Company, it is interesting to note that the American Bond and Share Corporation has provided, so to speak, a safety exit to prevent it from getting into a difficult position in a time of financial stress. This particularly interesting clause reads as follows:

ARTICLE III, SECTION 2

The Company shall also have the right, when in the opinion of its Directors it is deemed advisable for the protection of its interest and the interests of its bond holders hereunder so to do, to purchase, sell, exchange or otherwise acquire or dispose of such securities as may be held in said trust, regardless of the fact that said transaction may temporarily violate the provisions of this trust as to the ratio of securities to be held by it. As soon as it is practicable, however, after any such transaction as herein provided for, the Company shall rearrange said securities to conform with the provisions of Article II, Section 2. Nothing herein, however, shall be construed to allow a reduction of the collateral held hereunder below 110 per cent of the total amount of bonds outstanding hereunder, as provided for by Section 2 of Article II hereof.

It is true that the foregoing clause puts a greater strain upon the faith and confidence which the investing public is asked to have in the trust management. However, with a management of known probity and ability, this might not be an unreasonable request, in view of the occasional latitude of which every trust management is bound to feel the need, as changing conditions suddenly confront those in charge of the investment policy with real, though probably temporary, necessities for alterations in the general policies of investment.

It is noticeable that the smaller the investing group the wider are the investing powers conferred upon the management. Thus, we find

that in a company like the Morristown Securities Corporation very little is said with regard to rules or standards of diversification, nothing, indeed, of a restrictive character. The Board of Directors of the Morristown Corporation is operated in the same way as any other American corporation, has full authority to invest the funds of the Company in any type of securities which the Board deems best, and with such variations as to type of industry and geographical distribution as the Board may from time to time determine to be necessary or advisable.

The same general situation is found in connection with the First Investment Company of Concord, New Hampshire. One of the officers of this Company states in a letter to the author:

> Our charter gives us the usual broad powers of operation that most companies desire. The details are determined by the by-laws and the Directors' action. We, however, have set up the following rules of conduct; not over 10 per cent of our assets may be invested in any one security, no securities may be purchased in which any of our Directors have any financial interest, no debt may be incurred in excess of 25 per cent of our capital.

This is brief but very much to the point. Upon examination of the Company's balance sheet of December 31, 1926, we find the following general distribution and diversification of securities reflected in the value and types held, viz.:

ASSETS:		
Cash		$44,815.51
Demand Loans		50,000.00
Securities owned at market value, 12/31/26		
Bonds:		
Foreign	$29,795.00	
Railroad	18,975.00	
Public Utility	32,660.00	
Industrial	76,337.00	
Total		157,767.00
Stocks:		
Financial Companies	30,550.00	
Public Utilities	30,937.00	
Industrial	75,006.00	
Railroad	204,994.00	
Total		341,487.00
Total Assets		$594,069.51

It will be observed from the above list that, in the first place, there is, as in the case of many other companies, a distinct subordination of foreign securities to those in the domestic field. It will also be perceived that, so far as bonds are concerned, public utilities and industrials are given a distinct preference over those issued by railway companies, while in the field of stock investment a directly opposite policy has been followed, doubtless because of the opportunities of appreciation in railway stocks which many experts believe to exist at the present time.

When we examine the standards of value which have been adopted by the International Securities Trust of America and assumed in turn by its recent successor, the International Securities Corporation of America, which is at the present time the largest of all American investment trusts, we find a curious situation. There is no question that such standards of value form one of the important objectives of investment-trust operation, and hence it is curious that the largest of all American trusts should apparently be unwilling to make public its operating standards. So far as the author is aware, this situation is not usual in this country. On the contrary, although the standards may be limited, they are ordinarily freely available to anyone who is interested in knowing what they are. This point is covered in what is still the basic agreement of the International Securities Corporation, namely, the Amended Declaration of Trust of May 25, 1923. Article I, Paragraph 10, of the Amended Declaration of Trust reads as follows:

10. The Trustees shall adopt Rules and Regulations, not inconsistent herewith, prescribing and fixing certain standards which must be met by each security before such security shall be eligible for acquisition by the trust, and in addition, if the Trustees so desire, specifying rules of procedure, requirements and methods for the conduct of the business and affairs of the trust. The Rules and Regulations so adopted shall be binding upon the Trustees and their successors in the trust. No securities which shall not have met such standards of eligibility shall be acquired by or on behalf of the trust. The Rules and Regulations may be added to, altered or amended from time to time by two-thirds or more of the Trustees, provided only that said standards of eligibility as originally adopted by the Trustees shall never be lowered during the continuation of this trust. *The Rules and Regulations shall be available only to the Trustees and their successors in the trust, and no shareholder, creditor or other person whosoever shall be entitled to inspect the same for any cause or reason whatsoever.*

Curiously enough, no such reticence is shown in connection with the standards of diversification, which are definitely set forth and are so thorough and so carefully constructed that it will be interesting to quote excerpts in some detail, viz.:

ARTICLE IV

1. The business of the trust shall be limited in nature to the investment and reinvestment of capital. The Trustees shall not use the funds of this trust in connection with nor engage the trust in any enterprise involving promotion, business management or underwriting.

2. Upon receipt by them, from time to time, of monies from any source for the account of the trust, the Trustees as soon thereafter as they may deem practicable and desirable shall invest in marketable securities all of such funds then available for investment. No securities shall be purchased by or on behalf of the trust which shall not be eligible for acquisition by the trust under the terms of the Rules and Regulations which shall be adopted by the Trustees; and no securities shall be purchased unless:

(*a*) Reliable information shall be obtainable with respect to the history, management, assets, earnings and income of the governmental authority, corporation or organization issuing such securities;

(*b*) Unless the history of the nation or country in which such securities shall have originated shows financial stability and recognition of private property rights; and

(*c*) The governmental authority, corporation or organization issuing such securities shall have been established for a period of at least (4) four years.

The trust shall not purchase or otherwise acquire any of its Common Shares, nor shall it purchase or otherwise acquire any of its Preferred Shares or any of its bonds or other evidences of indebtedness except for the purpose of retirement and cancellation.

3. In selecting securities for purchase in accordance with the foregoing restrictions the Trustees shall exercise their own discretion and shall be entitled to rely upon information believed by them to be reliable, and in no event shall they be liable or responsible in any manner to anyone for so doing.

4. Of the total funds of the trust invested and available for investment by the Trustees, not more than seventy per cent (70%) may be invested at any one time in securities originating in the United States of America, not more than fifty-five per cent (55%) may be invested at any one time in securities originating in England, and not more than thirty-five per cent (35%) may be invested at any

one time in securities originating in any other nation or country. Not more than ten per cent (10%) of the total funds which may be so invested in securities originating in any one country may be invested in securities representing any one distinct class of business or industry. So long as the total funds of the trust invested or available for investment shall be less than One Hundred Thousand Dollars ($100,000), not more than five per cent (5%) of the total funds which may be so invested in securities originating in any one country may be invested in any one such security; when such total available funds shall amount to One Hundred Thousand Dollars ($100,000), but shall be less than One Million Dollars ($1,000,000), not more than three per cent (3%) of the total funds which may be so invested in securities originating in any one country may be invested in any one security; and when such total available funds shall amount to One Million Dollars ($1,000,000) or over, not more than one and three-fourths per cent (1¾%) of the total funds which may be so invested in securities originating in any one country may be invested in any one such security other than governmental securities. The trust shall never purchase or hold a majority in interest of any one issue of securities.

5. From time to time, the Trustees shall sell and dispose of all securities within one (1) year after they shall have ascertained that such securities would not then be eligible for purchase by them hereunder. The Trustees, in their discretion, at any time and from time to time, may sell and dispose of any securities belonging to the trust, and may invest and reinvest in accordance herewith the proceeds received therefrom.

It is also important to emphasize the fact that the International Securities Corporation, being closely analogous to the British type of trust, confers upon its management the widest powers of security substitution.

We may now turn our attention to the second group of companies which were mentioned when diversification was first discussed, namely, those companies which restrict their investments to a certain type of industry, thereby eliminating an important feature of diversification, but nevertheless have a full opportunity to diversify investments both as to type of security and geographical location. Such an investment trust is Electric Investors, Inc., which specializes in public utility corporation securities. We find that on May 1, 1927, this company owned securities in eighty-two underlying companies operating in every state of the Union with the exception of New Mexico, and also located in Canada, Mexico, Cuba, Panama, Guatemala, Ecuador, Italy, Spain, and Japan.

In its annual report for 1926, Electric Investors, Inc., gives the names of thirty-one companies in which its holdings represent more than 85 per cent of the total market value of all the securities owned by the company. It is unnecessary to quote this list at length, but an idea of the geographical diversification thus obtained may be given by quoting the names of a few of these companies, showing how widely spread in location they are, as for instance: Public Service Corporation of New Jersey; Kansas City Public Service Company; Tampa Electric Company; Toho Electric Power Company, Ltd., of Japan; Societa Meridionale di Elettricita (Italy); and Southern California Edison Company. Mr. S. Z. Mitchell, President of Electric Investors, Inc., says, with regard to his company's holdings:

The investments listed above include many of the most representative and thoroughly seasoned utility companies, covering practically every section of this country. The total population served by the American companies is estimated to be in excess of 50,000,000. Gross earnings of these companies for the twelve months ended May 31, 1927, aggregated more than $1,000,000,000. The territorial distribution of investment is unusually wide, as the American companies whose securities are held by the Company derive their income from operations in forty-seven of the forty-eight states. The corporate distribution of investment is also unusual, almost every type of public utility company being represented in the above list.

The industrialized eastern sections of the country are served by American Gas and Electric Company, Lehigh Power Securities Corporation, Public Service Corporation of New Jersey, Consolidated Gas Electric Light and Power Company of Baltimore and New England Telephone and Telegraph Company and others. Southern states, which are enjoying greatly increasing industrial activity, are served by American Power and Light Company, National Power and Light Company, Southeastern Power and Light Company, Electric Power and Light Corporation and others. Much of the Middle West, with its great diversity of manufacturing interest and agricultural importance, is provided with electric or gas service by Commonwealth Power Corporation, American Light and Traction Company, The North American Company, Northern States Power Company and the United Light and Power Company and others. American Power and Light Company and Electric Power and Light Corporation also have properties in the West, while the most important sections of California are served by Pacific Gas and Electric Company, Southern California Edison Company and The North American Company.

The Company also has relatively small holdings in other utility companies. It also is a stockholder in a number of corporations engaged in other lines of business, including Allied Chemical & Dye

Corporation, American Exchange Irving Trust Company, American Superpower Corporation, Columbian Carbon Company, The Fleischmann Company, General Electric Company, Gillette Safety Razor Company, Gulf Oil Corporation of Pennsylvania, National Fire Insurance Company of Hartford, Union Carbide and Carbon Corporation, F. W. Woolworth Company, and the Youngstown Sheet & Tube Company.

All securities purchased are carried at cost; therefore, the balance sheets and profit and loss statements do not show the enhancement in the market value over the book value of securities owned. Stock dividends are included as income at market price on date received.

It will be apparent from the foregoing statement that the very fact of limitation of diversification as to type of industry has seemingly impelled the trust management to use the greatest possible care in diversifying its holdings geographically. It would also appear that equal care has been used in choosing strong, experienced, and well-operated underlying corporations.

Another investment trust which is very similar to Electric Investors, Inc., is the American Super-Power Corporation of Delaware. The policy of this company is to acquire as permanent investments the common stocks of successful and progressive companies in the electric light and power business, the primary source of its earnings being the dividends on such stocks. It is to be noted, however, that in addition to such dividends the company has received certain fees in connection with the underwriting of offerings of additional stocks of some of the companies in which it is interested, and it has also made substantial profits by selling its underlying holdings on a rising market. Here we find a company which, while not limited by any charter provisions as to the character of investments that it may make, nevertheless, as a matter of policy, has devoted itself primarily and practically, up to the present time, to the development of investments in the electric power and light industry. This, of course, as in the case of Electric Investors, Inc., eliminates any practical diversification as to type of industry, while the company's policy of limiting its purchases to common stocks of utility corporations further eliminates the possibility of diversification as to type of security, leaving only geographical diversification as a practical possibility. On the other hand, there is wide latitude in the managerial power, so that we may say that, in direct contrast to the bankers' share companies, the American Super-Power Corporation has freedom of management with very restricted powers of diversification.

Within a limited field, however, the American Super-Power Corporation seems to have been entirely successful. A condensed statement showing its various types of investment securities and the amounts of each held by it as of December 31, 1926, is of decided interest:

CONDENSED STATEMENT—DECEMBER 31, 1926

(Showing Securities at Market Value)

SECURITIES AT MARKET VALUE AT END OF YEAR AS FOLLOWS:	
Preferred stocks, all with unbroken dividend records	$3,146,800.00
Common stocks with unbroken dividend records of 15 years or more	26,964,640.47
Other common stocks paying dividends regularly	9,518,354.00
Other common stocks not paying dividends and option warrants	5,497,975.00
Total	$45,127,769.47
Cash and accrued dividends on securities owned	905,924.59
Miscellaneous	6,244.99
Total Assets	$46,039,939.05
LIABILITIES	
Capital stock and surplus	$45,722,860.11
	Shares
First preferred stocks, no par value	100,000
Participating preferred stock, par value $25	273,918
Common stock "A," no par value	233,695
Common stock "B," no par value	745,250
Reserves for income taxes and preferred stock dividends	317,078.94
Total liabilities	$46,039,939.05

It is readily perceived from the foregoing that, as the possibilities of general diversification become strictly limited, the efforts of the trust managers appear to be devoted to obtaining as much diversification as possible within admittedly narrow bounds. Thus, we may note here that the various underlying stocks owned by the corporation are divided and classified according to dividend records, etc., and a glance at a partial list of the underlying companies also reveals a broad geographical spread of risk, the annual report for 1926 showing that the corporation owns substantial interests in the following companies, as well as a number of others which are not mentioned, viz.:

Public Service Corporation of New Jersey
Commonwealth Power Corporation
Penn-Ohio Securities Corporation
Southeastern Power and Light Company
Electric Power and Light Corporation
United Light and Power Company
United Illuminating Company (of New Haven)
Brooklyn Edison Company, Inc.
United Gas Improvement Company
Detroit Edison Company
Consolidated Gas, Electric Light and Power Company of Baltimore
Middle West Utilities Company
Southern California Edison Company
American Gas and Electric Company
Columbia Gas and Electric Corporation
American Power and Light Company
Electric Bond and Share Securities Corporation

It should be observed that apparently the only distinction between the American Super-Power Corporation and a modern public utility holding company is that the American Super-Power does not seek to control its underlyings and its primary policy is that of investment, while in the case of the utility holding company the primary policy is management and the underlyings are held subject to stock control and operated under the direct supervision of the managerial group which directs the destinies of the holding corporation.

Another example of limited diversification is afforded by the First Federal Power Investment Trust, a recently organized company whose primary purpose is the investment of its funds in foreign securities. Here we have diversification as to type of industry and diversification as to type of securities owned, but a partially limited diversification from the standpoint of geographical spread of risk; that is to say, the corporation's investments do not include domestic issues, and therefore an important element of geographical diversification, at least from a world-wide point of view, is missing.

A letter of Benjamin F. Castle, General Manager of the trust, to F. J. Lisman & Company, dated May 27, 1927, relative to the sale of the company's five-year 5 per cent secured gold notes, Series A, contains much interesting information relating to the underlying securities held by the trust. Some of it is worthy of quotation. In the first place, the diversification of the trust's holdings as to type of security is represented as follows:

	Per Cent
Foreign government bonds	44.15
Foreign municipal bonds	20.47
Foreign railroad bonds	4.85
Foreign mortgage bank bonds	7.55
Foreign industrial bonds	20.58
Foreign railroad stock (Govt. guaranteed)	.40
Foreign bank stock	1.95
Foreign industrial stock	.05
	100.00

The President further states the geographical distribution of the trust holdings as follows:

	Per Cent
European investments	58.05
Central American investments	7.55
South American investments	25.88
Philippine investments	1.25
Japanese investments	4.03
Canadian investments	.93
West Indian investments	1.46
East Indian Investments	.85
	100.00

The total number of countries represented was twenty-seven, and the largest investment in securities originating in any one country amounted to 10.56 per cent. The largest investment in any single issue was 4.7 per cent of the total investments. It is further stated, in the letter quoted, that the marketability of the trust's holdings as of May 27, 1927, may be tested by the following statement of percentages, viz.:

	Per Cent
Investments listed on New York exchanges	70.07
Investments unlisted but actively traded in	23.23
Unlisted and inactive investments	6.70
	100.00

It would seem fair to state that, within a limited field, the First Federal Foreign Investment Trust is actively engaged in seeking wide diversification of its underlying securities.

In concluding this topic, we may review the investment situation of another investing company which devotes its efforts primarily to the cultivation of the foreign field. The Swedish-American Invest-

ment Corporation is a foreign investing corporation organized by Lee, Higginson and Company of Boston. It has been the policy of this company to interest itself in comparatively few undertakings, and only those with which the trust managers have had previous experience and close contact. It is frankly admitted by the management of this company that such a policy is restrictive in character. Mr. Walter Ahlstrom, President of the Corporation, makes the following remarks in this connection in the course of the annual report for 1926:

The investments have been chosen not chiefly with a view of obtaining a high and immediate yield but rather with a view of acquiring interests in undertakings for which the future prospects over a long period are considered to be particularly promising. The management feels confident that this policy will result in a gradual increase in the resources of the corporation as well as in its annual income.

Although the diversification of the investments under such conditions necessarily must be less wide than is generally the case with investment trusts, it is undoubtedly sufficient to give a materially better protection against unforeseen circumstances than an investor could obtain by share-holding in one single industrial company. The investments of Swedish-American Investment Corporation cover industrial undertakings, real estate enterprises, as well as stocks in banks and financial institutions, and are distributed over several European countries, mainly Sweden and Germany. As of December 31, 1926, these investments were divided in the following proportions: industrial undertakings 35 per cent, real estate 48½ per cent, banking 16½ per cent. Practically half of the funds of the corporation are invested in shares quoted on different European markets, and it may be of interest to note that every single one of these shares shows a higher quotation on December 31, 1926, than on December 31, 1925. On December 31, 1926, the market value of quoted securities was $3,939,780 in excess of the book value of such investments, which book value corresponds approximately to the market value of December 31, 1925. Since December 31, 1926, a further appreciation has taken place in the market value of the quoted securities. It seems reasonable to assume that the securities which are not quoted on any market have also appreciated in value.

The corporation has during the year sold none of the securities which it owned at the beginning of the year and has somewhat increased its investments in industrial and bank shares. It has also used part of its funds for investments of a short-time nature which have been sold at the end of the year and has taken a participation in a syndicate doing different kinds of financial transactions. From these sources the corporation has made a profit of $910,936.24 in addition to that obtained as interest and dividends on investments.

It will be seen, especially from the information contained in the last paragraph quoted, that we have in the case of the Swedish-American Investment Corporation an active Anglo-American trust with wide managerial powers but with a well-considered policy of intentionally restricted diversification. The company forms one of those interesting variations of the British type with which the American field is so well filled. Frequently we find investing companies which restrict either management or diversification or else to a certain extent restrict both. This is a distinct evidence of the evolutionary process now proceeding with regard to investment trusts in the United States.

CHAPTER XV

STATISTICS OF AMERICAN INVESTMENT TRUSTS, COVERING CAPITALIZATION, ASSETS, INVESTMENTS, AND EARNINGS

EXPLANATION OF THE TABLES

The following tables have been compiled from figures published by a number of American investment trusts. It is noticeable that the companies included in these tables are of the Anglo-American type, although they do vary in that some of them are financing companies which seek to control some or all of their underlyings, while others are of the pure British type and diversify their investments without control of subsidiaries. In all cases appearing in tabulated form, the companies have wide managerial powers, thus, in theory at least, attaining the main objectives of the ideal investment trust. Bankers' share companies are not included, for the reason that because of the absence of management very few of them publish enough figures to make it advisable to attempt to put them in tabular form.[1] Furthermore, in the author's opinion, bankers' share companies are not true investment trusts, and hence it has been thought best to omit statistics relating to them from the present study.

Owing to the fact that investment trusts are still in their infancy in the United States, it has been a difficult matter to collect the statistical information contained in the following tables. While no one is more thoroughly aware of the incompleteness of these tables

[1] The following extract from a letter, recently received from the president of one of the largest and most successful bankers' share companies, seems of interest in this connection:

"In the A Securities Trust the balance sheet of the company is entirely immaterial in the study of its trust shares. This is also true of the balance sheet of the B Company, because in each case the trust certificates give an interest in a definite group of stocks, all of the income from which is paid out; in the case of the A Company to trust shareholders, and in the case of the B Company the income goes to the benefit of the trust shareholders but is subject to the operation of the reserve fund which is described in the pamphlet already sent you."

than the author, he feels that, with all their imperfections, they represent the first real attempt to place in comparative form the exact transactions of American trusts during the past several years, since they first began to assume a place in the financial system of the United States.

We shall consider the various statistical questions involved in connection with four tables, as follows:

Table XII—Capitalization
Table XIII—Assets and Liabilities
Table XIV—Investments
Table XV—Income (including Earnings)

In examining Table XII we first notice that the capital structure of the various trusts is in accordance with the American type of corporation. This is quite natural; but it is easily perceived that the British theory has been adapted to the American form principally because American investors understand bonds and preferred and common stock and do not comprehend the division of original subscriptions by the British method or the free use of debentures. The next point that arrests our attention is the absence of funded debt (bonds, notes, etc.). Of course, a pure British form of trust, such as the International Securities Corporation, which is the largest American investing company to-day, does have a funded debt of $8,000,000; and the Financial Investing Company, organized originally by much the same group, has a funded indebtedness of $4,000,000. On the whole, however, bond issues, among the companies listed, have been noticeable for their absence.

When we come to the stock situation we find that it is somewhat confusing. In the first place, a glance at the columns devoted to preferred stock will show that many companies employ several issues of preferred stock with different rates of return, and it is evident that the American group is using the preferred stock issues in much the same way that the British trusts use debentures, that is to say, for the purpose of sale to the public. This, however, is not universal, and it is quite impossible to dogmatize about it. We find several types of common stock employed, a good deal of it of no par value; and the situation is confused because, from the data submitted, it is often impossible to tell just where the control of the company lies, as on occasion it may well be reserved to a special issue of common stock. The principal point arising from the entire situation would

TABLE

AMERICAN INVESTMENT

Authorized Capital

		Preferred, Shares	Preferred, Shares	Common, Shares	Common, Shares	Total Authorized, Shares
12/31/26	American Super Power Corp.	100,000	300,000 Participating	A600,000	B750,000	1,750,000
4/30/27	First Federal Foreign Inv. Tr.	.....	.....	.....	.....	$5,000,000
12/31/26	Swedish American Inv. Corp.	.....	25,000,000 Participating	500,000	.....	.....
12/31/26	N. American Utility Securities Corp.	100,000	60,000	500,000	.....	.....
1/31/27	German Credit and Investment Corp.	$10,000,000	$2,000,000	500,000	.....	.....
12/31/26	Massachusetts Investors Tr.	.....	.....	.....	.....	$2,554,250
11/30/26	American Founders Tr.	$5,481,150 (7%)	$238,200 (6%)	$3,022,843.36	.....	.....
11/30/26	International Securities Tr.	$25,000,000	.....	Shares A900,000	B600,000	.....
11/30/26	Second International Securities Tr.	$30,000,000	3,000,000	A800,000	B600,000	.....
12/31/25	Morristown Securities Corp.	$2,500,000	.....	75,000	.....	.....
12/31/26	Morristown Securities Corp.	$2,500,000	.....	75,000	.....	.....
		Shares				
12/31/25	First Inv. Co.	20,000	.....	10,000	.....	.....
12/31/26	First Inv. Co.	20,000	.....	10,000	.....	.....
7/31/27	Financial Investing Co., N. Y., Ltd.	.....	.....	.....	.....	$1,000,000
12/31/24	Electric Investors, Inc.	.....	.....	.....	.....	.....
12/31/25	Electric Investors, Inc.	.....	.....	.....	.....	.....
12/31/26	Electric Investors, Inc.	.....	.....	.....	.....	.....
5/31/27	Electric Investors, Inc.	.....	.....	.....	.....	.....
6/30/27	Bankers Capital Corp.	10,000 (8% par pfd. cum.) ($100 par)	.....	10,000 (No par)	.....	.....
6/30/27	Eastern Bankers Corp.	25,000 (7% cum. pfd.) ($10 par)	.....	250,000 ($10 par)		
	Bankers Capital and Eastern Bankers Corp.	.....	.....	125,000 (No par)		
12/31/24	American-Foreign Power	.....	.....	.....	.....	.....
12/31/25	American-Foreign Power	.....	.....	.....	.....	.....
12/31/26	American-Foreign Power	.....	.....	.....	.....	.....

XII

TRUSTS—CAPITALIZATION

Issued Capital

Funded Debt	Preferred, Shares	Preferred, Shares	Common, Shares	Common, Shares	Notes Issued	Bonds Issued
.....	100,000 ($6)	$6,847,950 273,918 (8%) Par $25	233,695 ($1.20, $.50 in part. pfd. stock)	745,250 ($1.20, $.50 in. part pfd. stock)		
$5,000,000	.....	.....	$2,000,000 ($7)	.....	$2,000,000 (5%)	
.....	.....	$15,000,000 ($6.50)	Shares 300,000			
.....	$6	$11,393,250 ($7)				
.....	$2,500,000	Shares 20,000	$257,482.78			
.....	$5,481,150	238,200	$3,022,843.36			
$8,000,000	A37,600 (7%) C7,471,800 (6½%)	B2,034,700 (6%)	Shares A3,415,090	B$2,222,220	.....	$6,000,000 (6%) $2,000,000 (5%)
.....	3,528,200 (6%)	.....	A1,058,460	B1,800,000		
.....	$1,486,200 (5% cum.)	.....	507,240 (15¢ per share)			
.....	$1,586,100 (5% cum.)	.....	567,220 (75¢ per share)			
.....	$280,450					
.....	525,800	.....	10,000			
$4,000,000						
.....	$17,050 ($6)	.....	126,631			
.....	Shares 32,395	50,000	704,936			
.....	29,645	60,000	788,953 2/10			
.....	29,645	66,000	836,696 1/85			
.....	6,000	.....	10,000			
.....	256,731	120,000	920,000		143,269	$13,753,873.80
.....	356,406	115,839	936,688		43,549	4,185,074.80
.....	366,349	114,019	1,243,988		33,651	3,230,556.40
					Uncalled Balances on Preferred Stock, Shares Subscriptions (Not in A & L Statement)	

seem to be that there is as yet no orthodox system among American trusts for separating the ownership interest from the contribution of the investing public. Instead, each American company uses that combination of preferred and common stock issues which seems to be most effective in relation to its own needs and to its purchase by the public, so that sometimes the trust ownership and the element of control may be found in the preferred stock and sometimes in the common stock; and often, in both of these classes of securities, there are subordinate divisions which may be differently employed by different groups of trust managers.

Table XIII (p. 220) reflects some points already noted in connection with Table XII. We see, even more graphically, that there is an intensive use of no-par-value stock and also, up to the present time, an absence of funded or secured debt. The most interesting point revealed by this table is believed to be that shown in the columns containing the reserves for taxes, stock dividends, accrued taxes, dividend account, and finally the column which shows the various accumulations of surplus. One of the most worthwhile features of the typical British trust is the use of a considerable proportion of the trust profits, for the purpose of accumulating stated reserves and also a definite surplus. However, as we have seen in the section dealing with the accounting problems of the British trust, they have in England to-day a definite system of accounting by means of which the allocation of profits to reserves and surplus is made clear in most instances and fairly easy to comprehend. In America, trust accountants do not as yet seem to have adopted any kind of a uniform system, and this probably accounts for some features reflected in Table XIII. Judging by the British standard, or indeed by any conservative rule of action, the reserves set forth therein seem to be relatively low; but perusal of many annual reports leads the author to believe that in many instances reserves are combined with surplus. If the table is read in the light of this explanation the situation does not seem to be serious. Unquestionably, although American trusts are in most cases only three or four years of age, a great majority of them have already adopted a definite policy of surplus accumulation, and, according to every canon of common sense and good management, this is an excellent thing.

It may be noted with interest that occasionally the figures indicate that one or more of the companies is not doing business strictly along investment-trust lines. For instance, we may note that the German Credit Investment Corporation has only 12 per cent of its total assets invested in securities, while it is employing 33 per cent

in call loans. This would seem to point to a course of business which, while it takes care to make money through acknowledged banking mediums, nevertheless, waits favorable opportunities for foreign investment and then specifically enters the field and later as definitely retires.

It may be noted that, unlike many British trusts, these American companies have few miscellaneous sources of income, and they do not seem to engage to any extent in underwritings or syndicate participations. This is not to be wondered at; but in the future these activities may develop just as they did abroad. It is pleasing to see that notes and accounts payable are generally small in amount, and the total liabilities, when analyzed, do not seem out of proportion to the corporate assets.

This is a table which admittedly leaves much to be desired. The day has apparently not dawned when investment trusts in this country realize the importance of making public in detail their entire list of investments with all of the elements of diversification clearly indicated both in amounts and percentages. There appears to be a rather provincial feeling on the part of a number of American trusts that the exact system of diversification employed by them is a kind of trade secret which, if they should divulge it, might cause them to collapse. This does not seem to be sensible. Almost anyone who has acquired the fundamentals of a financial education can elucidate the general principles which should govern the diversification of investments, but, after all, the judgment needed to apply these principles is only acquired through years of experience and constant study. Table XIV does show some interesting features of diversification in connection with the investments of a number of trusts. It is true that some companies show their investments in figures and some in percentages, while a few give results in figures. It is pleasing to view the columns allotted to the First Federal Foreign Investment Trust and the First Investment Company. These two trusts go into more detail than any others and really give one a picture of the investments held by them.

Table XV contains data which are of great interest, and if read in connection with the other tables, should prove enlightening. Space does not permit the author to indulge in a comparative discussion of the income results in connection with the capitalization and the assets and liabilities of the companies represented, but anyone sufficiently interested to study these tables will find that a comparison of this character will be well worth while.

TABLE XIII

AMERICAN INVESTMENT TRUSTS—ASSETS AND LIABILITIES

		Assets								Liabilities		
		Securities	Due from Affiliated Companies	Accounts Receivable	Notes and Loans Receivable, Cash and Accrued Div. and Int. on Securities and Accrued Int.	Call Loans	Secured Long Term Loans	Miscellaneous	Good Will	Total Assets	Reserve for Inc. Taxes and Pfd. Stock Div.	Accrued Taxes
12/31/26	American Super Power Corp.	$45,127,769.47	.....	.....	$905,924.59	.....	.....	$6,244.99	.....	$46,039,939.05	$317,078.94	
4/30/27	First Federal Foreign Inv. Tr.	2,924,433.63	.....	$4,950.00	315,050.09	.....	.....	376,546.28	.....	3,620,980.00	22,815.00	
12/31/26	Swedish American Inv. Corp.	44,701,577.25	.....	.....	1,189,538.46	.....	.....	2,044,476.09	.....	47,935,591.80	525,000.00	
12/31/26	North American Utility Securities Corp.	9,939,834.01	$1,580,330.83	301,708.03	278,973.39	.....	.....	.....	.....	12,100,846.26	.....	$33,648.41
1/31/27	German Credit Investment Corp.	570,215.20	.....	.....	239,488.79	$1,523,809.52	$2,217,533.19	119,047.62	.....	4,670,094.32	125,882.82	
7/15/25	Massachusetts Investors Trust	1,025,013.41	.....	.....	44,050.75	.....	.....	.....	.....	.....	.....	.....
7/15/26	Massachusetts Investors Trust	2,415,744.09	.....	.....	107,392.89	.....	.....	.....	.....	.....	.....	.....
12/31/26	Massachusetts Investors Trust	2,823,424.44	.....	.....	97,970.80	.....	.....	.....	.....	2,921,395.24	.....	.....
11/30/26	American Founders Trust	12,338,783.31	.....	216,643.26	1,755,969.27	.....	.....	1,219,589.51	.....	15,530,985.35	155,089.39	.....
11/30/26	International Securities Tr. of America	20,862,383.77	.....	.....	1,782,236.58	.....	.....	2,831,289.21	.....	25,475,909.56	457,180.47	217,901.76
11/30/26	Second International Securities Tr.	5,682,207.76	.....	.....	524,931.23	.....	.....	240,883.55	.....	6,448,022.54	.....	9,344.80
12/31/25	Morristown Securities Corp.	1,929,680.82	.....	.....	249,338.93	.....	.....	.....	.....	2,179,019.75	23,500.00	.....
12/31/26	Morristown Securities Corp.	2,289,364.95	.....	.....	220,294.86	.....	.....	.....	.....	2,509,659.81	50,000.00	.....
12/31/25	First Investment Company	344,050.00	.....	.....	6,709.84	.....	.....	.....	.....	350,759.84	4,256.31	.....
12/31/26	First Investment Company	499,254.00	.....	.....	44,815.51	50,000.00	.....	.....	.....	594,069.51	.....	.....
2/28/25	Financial Investing Co. of N. Y., Ltd.	317,794.15	.....	.....	42,176.59	.....	.....	274.59	.....	360,245.33	.....	.....
7/31/25	Financial Investing Co. of N. Y., Ltd.	635,383.76	.....	.....	56,268.80	.....	.....	.....	.....	691,652.56	50.52	.....
1/31/26	Financial Investing Co. of N. Y., Ltd.	790,579.05	.....	11,789.86	39,918.86	.....	.....	7,646.90	.....	849,934.67	.....	.....
7/31/26	Financial Investing Co. of N. Y., Ltd.	882,525.47	.....	45,032.85	45,798.42	.....	.....	15,763.96	.....	989,120.70	875.02	.....
1/31/27	Financial Investing Co. of N. Y., Ltd.	989,779.93	.....	8,058.90	38,076.09	.....	.....	35,208.51	.....	1,071,123.43	.....	.....
7/31/27	Financial Investing Co. of N. Y., Ltd.	1,376,924.02	.....	109,883.12	101,411.40	.....	.....	100,219.45	.....	1,688,437.99	.....	.....
			Uncalled Balance on Subscriptions to Common Stock									
12/31/24	Electric Investors, Inc.	7,449,105.84	10,022,668.00	.....	898,606.46	.....	.....	662.00	.....	18,371,042.30	148,658.25	.....
12/31/25	Electric Investors, Inc.	25,653,543.16	1,271,036.00	.....	2,154,344.50	.....	.....	542.00	.....	29,079,465.66	71,348.52	.....
12/31/26	Electric Investors, Inc.	30,030,261.16	1,049,222.00	3,500.00	270,127.94	.....	.....	.....	.....	31,353,111.10	63,773.00	.....
5/31/27	Electric Investors, Inc.	32,419,795.44	1,048,322.00	.....	308,388.48	.....	.....	.....	.....	33,776,505.92	62,566.21	.....
6/30/26	Bankers Capital Corp.	1,033,410.39	.....	.....	.....	.....	.....	180,471.43	$36,399.71	1,250,281.53	24,860.00	.....
12/31/26	Bankers Capital Corp.	1,006,941.35	.....	.....	.....	.....	.....	100,210.81	1.00	1,107,153.16	42,000.00	.....
6/30/27	Bankers Capital Corp.	1,121,479.19	.....	.....	.....	.....	.....	20,101.95	1.00	1,141,582.14	76,000.00	.....
6/30/26	Eastern Bankers Corp.	648,840.46	.....	.....	.....	.....	.....	85,380.50	.....	734,220.96	.....	.....
12/31/26	Eastern Bankers Corp.	1,221,629.02	.....	.....	.....	.....	.....	217,277.70	.....	1,438,906.72	51,329.62	.....
6/30/27	Eastern Bankers Corp.	2,183,600.45	.....	.....	.....	.....	.....	221,577.01	.....	2,405,177.46	49,917.25	.....
12/31/24	American & Foreign Power Co., Inc.	48,924,734.91	.....	96,569.50	861,611.20	.....	.....	15,645.17	.....	49,898,560.78	166,609.54	.....
12/31/25	American & Foreign Power Co., Inc.	51,829,365.09	.....	177,848.11	11,355,112.40	.....	.....	17,676.00	.....	63,380,001.60	161,609.54	.....
12/31/26	American & Foreign Power Co., Inc.	61,503,383.69	.....	16,830,652.84	1,247,191.15	.....	.....	.....	.....	79,584,227.68	132,846.21	.....

TABLE XIII

Liabilities—*Continued*

		Dividend Accounts	Capital Stock	Surplus	Due to Affiliated Companies	Notes Payable	Accounts Payable	Loans Payable with Accrued Interest	Bonded Debt	Accrued Interest and Accounts	Miscellaneous	Total Liabilities
12/31/26	American Super Power Corp.	.....	$45,722,860.11	.....	.....	.....	.....	.....	.....	.....	.....	$46,039,939.05
4/30/27	First Federal Foreign Inv. Tr.	.....	2,000,000.00	$79,986.27	.....	$1,340,751.15	$918.75	.....	.....	.....	$176,508.83	3,620,980.00
12/31/26	Swedish American Inv. Corp.	.....	45,217,000.00	2,193,591.80	.....	.....	.....	.....	.....	.....	.....	47,935,591.80
12/31/26	North American Utility Securities Corp.	.....	11,393,250.00	673,879.08	.....	.....	68.77	.....	.....	.....	.....	12,100,846.26
1/31/27	German Credit-Investment Corp.	$84,437.50	4,457,482.78	.....	.....	.....	2,291.22	.....	.....	.....	.....	4,670,094.32
7/15/25	Massachusetts Investors Trust	.....	1,027,700.00	41,364.16								
7/15/26	Massachusetts Investors Trust	.....	2,250,000.00	273,166.98								
12/31/26	Massachusetts Investors Trust	28,777.28	2,554,250.00	338,367.96	.....	.....	.....	.....	.....	.....	.....	2,921,395.24
11/30/26	American Founders Trust	32,683.29	8,742,193.36	1,415,319.81	$2,261,251.44	.....	156,722.02	.....	.....	.....	2,767,726.04	15,530,985.35
11/30/26	International Securities Tr. of America	478,589.38	23,231,410.00	837,815.14	.....	.....	.....	.....	.....	.....	253,012.81	25,475,909.56
11/30/26	Second International Securities Tr.	35,287.00	6,386,660.00	16,730.74	.....	.....	.....	.....	.....	.....	.....	6,448,022.54
12/31/25	Morristown Securities Corp.	42,102.18	1,993,440.00	119,977.57	.....	.....	.....	.....	.....	.....	.....	2,179,019.75
12/31/26	Morristown Securities Corp.	55,884.80	2,153,320.00	250,455.01	.....	.....	.....	.....	.....	.....	.....	2,509,659.81
12/31/25	First Investment Company	.....	280,450.00	66,053.53	.....	.....	.....	.....	.....	.....	.....	350,759.84
12/31/26	First Investment Company	.....	525,800.00	68,269.51	.....	.....	.....	.....	.....	.....	.....	594,069.51
2/28/25	Financial Investing Co. of N. Y., Ltd.	.....	80,460.00	26,367.57	.....	.....	2,801.11	$250,616.65	.....	.....	.....	360,245.33
7/31/25	Financial Investing Co. of N. Y., Ltd.	.....	169,190.00	60,898.93	.....	.....	3.75	461,509.36	.....	.....	.....	691,652.56
1/31/26	Financial Investing Co. of N. Y., Ltd.	.....	210,150.00	68,579.99	.....	.....	7,687.75	461,850.26	$100,000.00	$1,666.67	.....	849,934.67
7/31/26	Financial Investing Co. of N. Y., Ltd.	.....	250,970.00	79,182.72	.....	.....	7,771.51	462,238.11	185,000.00	3,083.34	.....	989,120.70
1/31/27	Financial Investing Co. of N. Y., Ltd.	.....	285,680.00	94,918.01	.....	.....	14,145.97	344,946.11	Series 1930 165,000.00 Series 1940 161,000.00	5,433.34	.....	1,071,123.43
7/31/27	Financial Investing Co. of N. Y., Ltd.	.....	518,940.00	125,045.65	..... Liability to Issue Common Stock When Final Payments Are Made	.....	9,773.84	.....	1,019,500.00	15,178.50	.....	1,688,437.99
12/31/24	Electric Investors, Inc.	.....	4,481,442.50	463,694.10	11,167,600.00	1,750,000.00	335,894.43	.....	.....	23,753.02	.....	18,371,042.30
12/31/25	Electric Investors, Inc.	.....	24,103,137.50	1,487,158.66	2,839,984.00	.....	389,235.29	.....	.....	188,601.69	.....	29,079,465.66
12/31/26	Electric Investors, Inc.	.....	26,403,131.50	2,244,466.68	2,268,371.00	.....	115,846.01	.....	.....	257,522.91	.....	31,353,111.10
5/31/27	Electric Investors, Inc.	.....	28,042,362.50	4,256,681.03	1,169,140.00	.....	71,172.01	.....	.....	174,584.33	.....	33,776,505.92
6/30/26	Bankers Capital Corp.	.....	750,000.00	95,275.21	.....	.....	374,286.32	.....	.....	.....	5,860.00	1,250,281.53
12/31/26	Bankers Capital Corp.	.....	750,000.00	68,119.55	.....	.....	235,993.61	.....	.....	.....	11,040.00	1,107,153.16
6/30/27	Bankers Capital Corp.	.....	750,000.00	199,275.62	.....	.....	111,206.52	.....	.....	.....	5,100.00	1,141,582.14
6/30/26	Eastern Bankers Corp.	.....	685,700.00	48,400.96	.....	.....	.....	.....	.....	.....	120.00	734,220.96
12/31/26	Eastern Bankers Corp.	.....	1,188,900.00	176,533.23	.....	.....	.....	.....	.....	.....	22,143.87	1,438,906.72
6/30/27	Eastern Bankers Corp.	.....	1,950,900.00	404,360.21	.....	.....	.....	.....	.....	.....	.....	2,405,177.46
12/31/24	American & Foreign Power Co., Inc.	425,439.03	46,735,766.74	815,641.15	.....	.....	435,354.53	1,079,000.00	.....	240,749.79	.....	49,898,560.78
12/31/25	American & Foreign Power Co., Inc.	621,823.21	56,305,665.74	1,205,749.33	.....	.....	26,322.22	4,855,000.00	.....	203,831.56	.....	63,380,001.60
12/31/26	American & Foreign Power Co., Inc.	640,749.06	67,393,037.48	2,749,816.80	.....	.....	11,904.40	8,385,000.00	.....	270,873.73	.....	79,584,227.68

TABLE XIV

Investments

	American Super-Power Corp. 12/31/26	First Federal Foreign Inv. Tr. 4/30/27	Swedish American Inv. Corp. 12/31/26	American Founders Tr.	First Inv. Co., 12/31/26	Financial Inv. Co., N. Y., Ltd. 1/1/27	Electric Investors, Inc.
Preferred stock	$3,146,800.00	}	.....	.....	$341,487		
Common stocks	41,980,969.47						
Bonds	.....	.....	.....	.....	157,767		
	$45,127,769.47	.....	.....	.....	$499,254		
Foreign bonds	.....	.....	.....	.....	$29,795		
Railroad bonds	.....	.....	.....	.....	18,975		
Public utility bonds	.....	.....	.....	.....	32,660		
Industrial bonds	.....	.....	.....	.....	76,337		
Foreign government bonds	.....	44.15%					
Foreign municipal bonds	.....	20.47					
Foreign railroad bonds	.....	4.85					
Foreign mortgage bank bonds	.....	7.55					
Foreign industrial bonds	.....	20.58					
Foreign railroad stock (government guarantee)	.....	.40					
Foreign bank stock	.....	1.95					
Foreign industrial stock	.....	.05					
Industrial stocks	.....	100%	$15,677,800.00 (35%)	.....	75,006		
Real estate stocks	.....	.....	18,227,000.00 (48½%)				
Bank and financial stocks	.....	.....	7,322,777.25 (16½%)	.....	30,550		
Notes secured by real estate mortgages	.....	.....	3,474,000.00				
Railroad stock	.....	.....	.....	.....	204,994		
Public utilities stock	.....	.....	.....	.....	30,937		
Listed on New York Exchanges	.....	70.07%					
Unlisted but actively traded in	.....	23.23	.....	.....	$499,254		
Unlisted and inactive	.....	6.7					
		100%					
Number of investments	.....	.....	.....	282	No debt may be incurred in excess of 25% of capital.	152 122 (Listed bonds) 16 (Listed preferred stocks) 14 (Listed common stocks)	82
Europe	.....	58.05%	.....	.....	No securities may be purchased in which directors have any financial interest.		
Central America	.....	7.55	.....	.....			
South America	.....	25.88	.....	.....			
Philippines	.....	1.25	.....	.....			
Japan	.....	4.03	.....	.....			
Canada	.....	.93	.....	.....			
West Indies	.....	1.46	.....	.....			
East Indies	.....	.85	.....	.....			
		100%					
Number of countries	.....	27	.....	29	Not more than 10% of assets in any one security.		

Note—Absence of data in annual reports prevents setting forth diversification of investments for:

North American Utility Securities Corp.
German Credit and Investment Corp.
Massachusetts Investment Trust
International Securities Trust of America
Second International Securities Trust of America and Morristown Securities Corp.

The column of net earnings reflects a general condition of successful operation, while the next two columns indicate clearly that dividends on preferred issues have been regularly paid. On the other hand, it is not surprising to note that as yet comparatively few dividends have been paid on the common stocks. This would seem to indicate that, in the majority of cases, preferred stocks are being sold to the public along the lines of the British debenture issues, while the trust ownership and the promotive interest are waiting for their profits, which are to be derived from the appreciation of the common stocks. We must not forget, however, that, following the time-honored American plan, quite a number of these corporations have used at least one class of common stock for bonus purposes, so that it does not always follow that common stocks represent the trust owners, even when there is no question that the preferred stocks represent the public interest. In this connection it is encouraging to note a distinct tendency to develop surplus accounts from paid-in surplus and earnings before recognizing the claims of common stock.

Now, turning to the question of income, the author has found it impossible to analyze the sources of income of the companies examined. Generally speaking, investment trusts have few sources, and the great bulk of income must come from interest and dividends received in connection with the securities of underlying companies; but there are other sources, and there is always the fundamentally and vitally interesting question of profit derived through the sale and purchase of underlying securities. On this point, nearly all American and a great majority of British trusts are mute. Their reasons for this policy of silence are more easily comprehended than their reasons for reticence with regard to the diversification of their investments; nevertheless, the day should come when the utmost publicity will be given to this as well as to all other features connected with the investing policy of trust companies.

We may note, however, that the gross income of the trusts examined varies from approximately 6 per cent to 10 per cent of their total investments, which would seem to be a reasonable situation, considering the market conditions of the past few years and the youth of the operating companies.

Taking up the equally important matter of expenses, we are able to arrive at a somewhat better result, although it has not been possible, as a general rule, properly to analyze the total expenses of any company. Also, the question of trust expenses in America is much befogged at the present time, because there is no doubt that these

TABLE XV

American Investment Trusts—Income, Disbursements and Distribution of Surplus

		Interest and Dividends	Special Profits Commissions, Etc.	Profits on Foreign Exchange Transactions	Profits on Sale of Investments
12/31/24	American Super Power Corp.	$381,521.19	$1,140,519.00	.....	.....
12/31/25	American Super Power Corp.	1,399,511.44	1,951,020.00	.....	.....
12/31/26	American Super Power Corp.	1,984,261.32	1,823,692.00	.....	.....
4/30/27	American Super Power Corp.	2,224,494.33	1,243,862.44	.....	.....
4/30/27	First Federal Foreign Inv. Tr.	.....	.....	.....	.....
12/31/26	Swedish American Inv. Corp.	2,940,806.85	.....	$700,000.00	$210,936.24
12/31/25	North American Utility Securities Corp.	.....	.....	.....	.....
12/31/26	North American Utility Securities Corp.	.....	.....	.....	.....
1/31/27	German Credit and Investment Corp.	.....	.....	.....	.....
7/15/25	Massachusetts Investors Tr.	.....	.....	.....	.....
7/15/26	Massachusetts Investors Tr.	.....	.....	.....	.....
12/31/26	Massachusetts Investors Tr.	.....	.....	.....	.....
11/30/26	American Founders Tr.	1,277,280.23	.....	.....	.....
11/30/26	Internat'l Securities Tr. of America	2,262,347.52	.....	.....	.....
11/30/26	Second Internat'l Sec. Tr. of America	No report. 1st year of comp any's existence.			
12/31/25	Morristown Securities Corp.	.....	.....	.....	.....
12/31/26	Morristown Securities Corp.	.....	.....	.....	.....
12/31/25	First Investment Co.	.....	.....	.....	.....
12/31/26	First Investment Co.	.....	.....	.....	.....
12/31/24	Electric Investors, Inc.	.....	.....	.....	.....
12/31/25	Electric Investors, Inc.	.....	.....	.....	.....
12/31/26	Electric Investors, Inc.	.....	.....	.....	.....
5/31/27	Electric Investors, Inc.	.....	.....	.....	.....
12/31/24	American and Foreign Power Co., Inc.	3,089,957.00	.....	.....	.....
12/31/25	American and Foreign Power Co., Inc.	3,971,718.00	.....	.....	.....
12/31/26	American and Foreign Power Co., Inc.	4,506,577.00	.....	.....	.....

		Interest on Bank Accounts	Total Income	Expenses	Interest
12/31/24	American Super Power Corp.	.....	$1,522,040.19	$13,835.23	.....
12/31/25	American Super Power Corp.	.....	3,350,531.44	27,155.30	.....
12/31/26	American Super Power Corp.	.....	3,807,953.32	24,970.67	.....
4/30/27	American Super Power Corp.	.....	3,468,356.77	27,987.93	.....
4/30/27	First Federal Foreign Inv. Tr.	.....	196,507.19	.....	.....
12/31/26	Swedish American Inv. Corp.	$76,706.44	3,928,449.53	58,966.00	.....
12/31/25	North American Utility Securities Corp.	.....	1,236,455.91	.....	.....
12/31/26	North American Utility Securities Corp.	.....	1,370,244.68	.....	.....
1/31/27	German Credit and Investment Corp.	.....	582,038.94	26,735.84	.....
7/15/25	Massachusetts Investors Tr.	.....	46,940.01	.....	.....
7/15/26	Massachusetts Investors Tr.	.....	145,029.68	.....	.....
12/31/26	Massachusetts Investors Tr.	.....	196,448.30	13,141.40	.....
11/30/26	American Founders Tr.	.....	1,277,280.23	.....	.....
11/30/26	Internat'l Securities Tr. of America	.....	2,262,347.52	268,261.14	$364,018.49
11/30/26	Second Internat'l Sec. Tr. of America	.....	.....	.....	.....
12/31/25	Morristown Securities Corp.	.....	215,354.08	9,651.28	9,690.11
12/31/26	Morristown Securities Corp.	.....	288,031.68	8,860.27	.....
12/31/25	First Investment Co.	.....	.....	.....	.....
12/31/26	First Investment Co.	.....	.....	.....	.....
12/31/24	Electric Investors, Inc.	.....	341,184.28	10,557.88	.....
12/31/25	Electric Investors, Inc.	.....	2,964,745.65	36,623.80	.....
12/31/26	Electric Investors, Inc.	.....	2,628,134.41	44,156.79	.....
5/31/27	Electric Investors, Inc.	.....	3,472,680.58	36,388.91	.....
12/31/24	American and Foreign Power Co., Inc.	.....	3,089,957.00	316,704.00	20,558.00
12/31/25	American and Foreign Power Co., Inc.	.....	3,971,718.00	262,307.00	114,434.00
12/31/26	American and Foreign Power Co., Inc.	.....	4,506,577.00	296,320.00	316,789.00

TABLE XV—*Continued*

		Taxes, Including Reserve for Income Tax	Interest on Notes and Accounts Payable	Total Expenses	Net Earnings
12/31/24	American Super Power Corp.	$125,564.26	.....	$139,399.49	$1,382,640.70
12/31/25	American Super Power Corp.	292,283.27	.....	319,438.57	3,031,092.87
12/31/26	American Super Power Corp.	254,824.00	.....	279,794.67	3,528,158.65
4/30/27	American Super Power Corp.	170,373.76	.....	198,361.69	3,269,995.08
4/30/27	First Federal Foreign Inv. Tr.	.....	.....	.....	163,662.84 (Before taxes)
12/31/26	Swedish American Inv. Corp.	525,000.00	.....	583,966.00	3,344,483.53
12/31/25	North American Utility Securities Corp.	.....	.....	280,364.92	956,090.99
12/31/26	North American Utility Securities Corp.	.....	.....	369,769.80	1,000,474.88
1/31/27	German Credit and Investment Corp.	125,882.82	.....	152,618.66	429,420.28
7/15/25	Massachusetts Investors Tr.	.....	.....	2,907.01	44,033.00
7/15/26	Massachusetts Investors Tr.	.....	.....	10,669.64	134,360.04
12/31/26	Massachusetts Investors Tr.	8,911.12	.....	22,052.52	174,395.78
11/30/26	American Founders Tr.	.....	.....	484,606.86	792,673.37
11/30/26	Internat'l Securities Tr. of America	.....	.....	632,279.63	1,630,067.89
11/30/26	Second Internat'l Sec. Tr. of America	No report. 1st year of company's existence.			
12/31/25	Morristown Securities Corp.	23,500.00	.....	42,841.39	172,512.69
12/31/26	Morristown Securities Corp.	50,000.00	.....	58,860.27	229,171.41
12/31/25	First Investment Co.	.....	.....	.....	44,950.26 (Net Inc.)
12/31/26	First Investment Co.	.....	.....	.....	54,011.37 (Net Inc.)
12/31/24	Electric Investors, Inc.	6,140.15	$56,646.60	73,344.63	267,839.65
12/31/25	Electric Investors, Inc.	115,275.16	50,682.88	202,581.84	2,762,163.81
12/31/26	Electric Investors, Inc.	188,462.69	20,058.33	252,677.81	2,375,456.60
5/31/27	Electric Investors, Inc.	149,526.19	20,904.50	206,819.60	3,265,860.98
12/31/24	American and Foreign Power Co., Inc.	.....	.....	.....	2,752,695.00
12/31/25	American and Foreign Power Co., Inc.	.....	.....	.....	3,594,977.00
12/31/26	American and Foreign Power Co., Inc.	.....	.....	.....	3,893,468.00

		Dividends on 1st Preferred Stock	Dividends on 2nd Preferred Stock	Dividends on Common Stock	Carried to Surplus
12/31/24	American Super Power Corp.				
12/31/25	American Super Power Corp.				
12/31/26	American Super Power Corp.	$507,050.00	$415,859.56	$1,605,216.00	$1,000,033.09
4/30/27	American Super Power Corp.	547,050.00	461,395.00	.....	2,261,550.00
4/30/27	First Federal Foreign Inv. Tr.				
12/31/26	Swedish American Inv. Corp.				
12/31/25	North American Utility Securities Corp.	210,982.83	420,000.00	.....	325,108.16
12/31/26	North American Utility Securities Corp.	223,020.37	420,000.00	.....	357,454.51
1/31/27	German Credit and Investment Corp.	171,937.50	.....	.....	257,482.78
7/15/25	Massachusetts Investors Tr.	42,798.30	.....	.....	1,234.70
7/15/26	Massachusetts Investors Tr.	128,421.75	.....	.....	5,938.29
12/31/26	Massachusetts Investors Tr.	145,618.50	.....	.....	28,777.23
11/30/26	American Founders Tr.	285,346.49			
11/30/26	Internat'l Securities Tr. of America	349,723.46	.....	266,735.78	639,619.19
11/30/26	Second Internat'l Sec. Tr. of America				
12/31/25	Morristown Securities Corp.				
12/31/26	Morristown Securities Corp.	76,875.82	.....	41,363.70	110,931.89
12/31/25	First Investment Co.	16,974.75	.....	.....	27,975.51
12/31/26	First Investment Co.	24,199.40	.....	4,668.98	25,142.99
12/31/24	Electric Investors, Inc.	75,224.87	.....	.....	Surplus Carried Forward 463,694.10
12/31/25	Electric Investors, Inc.	206,165.25	109,950.00	1,422,584.00	1,487,158.66
12/31/26	Electric Investors, Inc.	210,810.83	309,106,75	1,098,231.00	2,244,466.68
5/31/27	Electric Investors, Inc.	209,162.92	348,695.83	1,098,231.00	4,256,681.03
12/31/24	American and Foreign Power Co., Inc.	1,456,657.00	.....	.....	1,296,038.00
12/31/25	American and Foreign Power Co., Inc.	2,274,083.00	.....	.....	1,320,894.00
12/31/26	American and Foreign Power Co., Inc.	2,536,510.00	.....	.....	1,356,958.00

companies are often encountering considerable sales resistance in their efforts to dispose of their own securities. Investment trusts, while much talked about, are not as yet well understood or generally popular in the United States, and hence an element of selling expense enters into the American picture which has long ago been eliminated from the British situation. The author is aware of a number of devices employed to obviate the necessity of showing up this situation on trust balance sheets. Perhaps the favorite plan is for a trust to make a contract with a fiscal agent or a managing corporation, by which, for a definite periodical payment or a percentage arrangement of some kind, it is relieved of its sales expense and oftentimes of its salaries and office rent. However, in spite of the condition above described, it is possible to come to some interesting conclusions upon the question of general expense, and it may be stated that the ratio of management expense to gross income is comparatively low, viz.:

	Per Cent
American Super-Power Corporation	0.8
Swedish-American Investment Corporation	1.5
German Credit and Investment Corporation	4.6
Massachusetts Investors Trust	6.7
International Securities Trust of America	11.8
Morristown Securities Corporation	3.1
Electric Investors, Inc.	1.1
American and Foreign Power Co., Inc.	6.6

Again, we notice from this table the infrequency of bond issues as evidenced by the low amount of interest paid. We may also note the relatively high reserves for taxes and tax expenditures. This comment is not made in a critical spirit, but merely because the facts reflect the present corporate tax situation in the United States.

In concluding this study of the income of American investment trusts, the author desires to give, in full, a report of the earnings and investments of the Mutual Investment Trust of New York, which was furnished him by Mr. Edgar Higgins, an executive of the Trust and a well-known expert upon investment-trust matters. The particularly interesting feature of this report is the fact that this Trust freely reveals its losses and gains through shift of investment. In the author's experience, it is unique in this respect. Looking to the future, it is believed that, after all, in the Anglo-American trust, careful, honest, expert management is and always will be the keystone of success. Such management will not hesitate to reveal the results of operations. If investment trusts are to become a leading feature in the scheme of American finance, it would seem necessary that as they evolve they must be increasingly willing to publish not

merely the bare facts relating to capitalization, income, investments, etc., but the more intimate details of operation which, in the long run, are bound to spell success or failure. It is because at this early day the Mutual Investment Company has not feared to pursue such a policy that its financial report is particularly interesting. The report is as follows:

At the end of the first year of operations, April 1, 1927, the Trust owned 99 different securities. The names, cost, and market value as of April 1st of these securities is shown on the following pages. A list of all transactions during the year is also annexed.

The 1926 earnings, from April 1st to December 31st, were at the rate of 10.10 per cent. The earnings for the fiscal year 4/1/26 to 4/1/27 were 10.08 per cent. The 1927 earnings—January 1st to August 1st—were at the rate of 10.59 per cent after Trust Expenses.

As the securities listed below are not necessarily held as permanent investments, certificate holders are cautioned against regarding the list as a recommendation for their own personal investment. For example, the following are the percentages in the various types of securities as listed on April 1st, 1927, compared with August 1st, 1927.

While the number of different securities owned on April 1st was 99, on August 1st it was 145. On April 1st, the largest amount of any one security owned was only 4.24 per cent of the entire Fund. On August 1st it was only 3.16 per cent.

Type	April 1, 1927		August 1, 1927	
	Number of different securities	Per cent of total capital	Number of different securities	Per cent of total capital
COMMON STOCKS:				
Industrials	6	4.29	29	13.21
Utilities	5	4.22	10	5.61
Railroads	6	5.76	27	15.31
Bank & Insurance Stocks	0	....	1	2.24
	17	14.28	67	36.37
PREFERRED STOCKS:				
Industrials	1	1.39	3	1.96
Utilities	5	4.39	6	3.84
	6	5.78	9	5.80
BONDS:				
Industrials	11	10.29	6	5.21
Utilities	8	9.05	9	8.27
Railroads	14	15.09	11	8.22
Foreign	10	9.14	10	7.03
	43	43.57	36	28.73
SHORT TERM SECURITIES: (Maturing before 1930)	33	36.37	33	29.10
	99	100	145	100

	Holdings as of April 1, 1927			
	Cost	Market	Loss	Gain
RAILROAD COMMON STOCKS:				
Atlantic Coast Line	189	176	13	
Chesapeake & Ohio	158	164	.....	6
N. Y. Central	121	144	.....	23
Pennsylvania	56	60	.....	4
Reading	95	111	.....	16
Southern Pacific	107	112	.....	5
INDUSTRIAL COMMON STOCKS:				
American Locomotive	104	109	.....	5
General Railway Signal	91	114	.....	23
Phillips Petroleum	49	46	3	
Standard Oil of Indiana	63	66	.....	3
Union Carbide & Carbon	80	118	.....	38
United Drug	168	165	3	
UTILITY COMMON STOCKS:				
Cons. Gas of Baltimore	47	54	.....	7
Cons. Gas of New York	88	97	.....	9
Electric Bond & Share	72	69	3	
Inter. Tel. & Tel	129	133	.....	4
Middlewest Utilities	113	110	3	
INDUSTRIAL PREFERRED STOCKS:				
Goodyear Tire & R. Co	109	104	5	
UTILITY PREFERRED STOCKS:				
Birmingham Elec	101	107	.....	6
El Paso Elec. A	103	108	.....	5
Ft. Worth Pr. & Lt	107	109	.....	2
Memphis Pr. & Lt	103	108	.....	5
Milwaukee El. Ry. & Lt	101	100	1	
INDUSTRIAL BONDS:				
Anaconda Copper	107	108	.....	1
Bush Terminal 5s, 1955	90	97	.....	7
Calif. Petroleum 6½s, 1933	104	103	1	
Commercial Cables 1st 4s 2397	74	79	.....	5
Cudahy Packing Deb. 5½s 1937	93	98	.....	5
General Petroleum 5s 1940	95	100	.....	5
Swift & Company 5s 1932	97	100	.....	3
Union Oil of Calif. 6s 1942	105	108	.....	3
United Stores Realty 6s 1942	104	104		
Wilson & Co. 1st 6s 1941	99	100	.....	1
Youngstown Sheet & T. 6s	102	104	.....	2

	Holdings as of April 1, 1927			
	Cost	Market	Loss	Gain
UTILITY BONDS:				
Amer. Gas & Elec. 6s 2014	99	104	.....	5
Brooklyn Manhattan Tr. 6s 1968	93	99	.....	6
Detroit City Gas Co. 1st 6s 1947	106	106		
Kansas Electric Power 1st 6s 1937	102	104	.....	2
Pac. Gas & El. 1st & Ref. 6s 1941	107	108	.....	1
Public Serv. of N. J. 6s 1944	101	105	.....	4
Southeastern Pr. & Lt. 6s 2025	96	100	.....	4
Toledo Edison 7s 1941	108	108		
RAILROAD BONDS:				
Chgo., Milw. & St. Paul 6s 1934	103	104	.....	1
Chgo. & Rock Is. Pac. Ref. 4s 1934	90	94	.....	4
Cuba R.R. 1st 1952	92	95	.....	3
Erie & Genesee River 6s 1957	106	112	.....	6
Erie & Jersey 1st 6s 1955	106	112	.....	6
Grand Trunk Eq. 6½s 1936	108	108		
Gt. Northern Gen. 7s 1936	111	114	.....	3
Hudson & Manhattan Adj. 5s 1957	80	89	.....	9
Missouri Pac. 4s 1975	67	78	.....	11
Rio Grande Western 4s 1949	79	85	.....	6
St. Louis & San Fran. Adj. 6s 1955	96	100	.....	4
St. Louis San Fran. P. L.	79	87	.....	8
Texarkana & Ft. Smith 5½s 1950	100	104	.....	4
FOREIGN BONDS:				
Argentine 6s 1959	98	99	.....	1
Brazil Ext. 4s 1889–1966	56	59	.....	3
Bulgaria 4½% 1907	30	33	.....	3
German 7s 1949	101	107	.....	6
Japan 6½s 1954	94	101	.....	7
Mtge. Bank of Denmark 6s 1970	101	101		
Oriental Development 6s 1953	88	96	.....	8
Queensland 7s 1941	111	112	.....	1

Short-Term Bonds and Notes:	Yield
Wisconsin Central Ry. 5½s 4/15/27	5.25
N. Y. Arch Terra Cotta 7s 5/1/27	6.00
Missouri Pacific 5s 7/1/27	4.62
J. J. O'Leary Bond & Mtge. 6s 7/1/27	6.00
Oregon Calif. R.R. 5s 7/1/27	4.38
Cosmopolitan Office Bldgs. & Theatres Boston, Mass. 7s 7/1/27	5.50
Title Guar. & Tr. Co. G'td Mtge. 5½s 8/1/27	5.50
Industrial Bk. of Japan 6s 8/15/27	5.90
Murray Hill Apts., N. Y. C. 6½s 8/15/27	5.40
Alden Park Manor, Brookline 6½s 8/25/27	5.40
Frankfort on Main 7s 10/1/27	7.00
Current River R.R. 1st 5s 10/1/27	5.00
Ind. Coal Co. 1st 7s 10/1/27	5.62
Park Ave. Apt. 1st Mtge. 6s 11/1/27	5.87
Memphis St. Ry. Eq. Trust 6s 12/1/27	5.50
General Power & Lt. 6s 1/1/28	6.00
Sinclair Crude Oil Pur. Co. 6s 2/1/28	5.40
Mtge. Guarantee Co. of Amer. 6s 4/1/28	5.00
Investments Sec. Co. of Texas 6s 5/1/28	6.00
Central Indiana P. Co. 6s 6/1/28	5.90
Edith Rockefeller McCorm. 6s 7/1/28	6.60
Munich 7s 8/1/28	6.30
Tokyo El. Lt. Co. 6s 8/1/28	6.70
Mtge. Sec. of America 6s 8/1/28	6.00
Lake Shore & Mich. So. 4s 9/1/28	4.40
Mtge. Guarantee Co. of Amer. 6s 10/1/28	5.00
Goodyear Tire & R. 5s 12/15/28	6.00
Baltimore & Ohio 6s 7/1/29	4.90
Cin., Chgo. & St. L. 6s 7/1/29	4.88
Amer. Tel. & Tel. 4s 7/1/29	5.00
Toho El. Pr. 6s 7/15/29	6.55
Compania Cubana 6s 9/1/29	6.00
City of Duisburg 7s 11/1/29	6.75
Del. & Hudson 7s 6/1/30	4.87
Average Yield	5.64

The following is a tabulation of the *transactions completed* during the year, showing the purchase price, the sale price, and the loss or gain on all securities sold:

	Cost	Sold for	Loss	Gain
COMMON STOCKS:				
American Tobacco B	112	116	.....	4
Bucyrus Co.	210	221	.....	11
California Packing	127	137	.....	10
Continental Can	75	79	.....	4
Du Pont	234	299	.....	65
Endicott Johnson	67	67		
General Electric	303	348	.....	45
Gulf Oil	84	86	.....	2
Illinois Central Ry.	117	120	.....	3
National Supply Co.	63	80	.....	17
Westinghouse Air Brake	110	129	.....	19
PREFERRED STOCKS:				
Cons. Gas, New York	57	59	.....	2
Duquesne Lt. Co.	113	115	.....	2
Kansas City So. Rwy.	62	66	.....	4
N. Y., Chgo. & St. Louis Rwy.	97	102	.....	5
Tidal Osage Oil Co.	108	105	3	
Wabash Rwy. Co.	71	88	.....	17
UTILITY BONDS:				
Amer. Pr. & Lt. 6s 2016	99	101	.....	2
Amer. Tel. & Tel. 5½s 1943	106	106		
Central Pr. & Lt. 6½s 1952	106	110	.....	4
Fla. Pub. Serv. 6½s 1949	100	100		
Int. Tel. & Tel. 5½s 1945	109	109		
Int. Rapid Transit 7s 1932	96	98	.....	2
La. Pr. Co. 6½s 1944	102	103	.....	1
Market St. Rwy. 7s 1940	97	97		
Nebraska Pr. Co. Deb. 6s 2022	100	102	.....	2
No. Amer. Edison 6s 1952	104	106	.....	2
Portland Ry. Lt. & Pr. 7½s 1946	106	106		
Pub. Serv. Co. of Colo. 6s 1953	102	101	1	
Rochester Gas & Elec. 7s 1946	113	111	2	
Stand. Gas & Elec. 6s 1935	100	100		
Texas Pr. & Lt. 6s 2022	100	101	.....	1
Third Ave. Rwy. Co. 4s 1960	63	65	.....	2
RAILROAD BONDS:				
N. Y., New Haven & Hartford 6s 1940	100	103	.....	3
St. Louis, San Fran. Ry. Inc. 6s 1960	92	97	.....	5
Western Maryland Ry. 1st 4s 1952	72	75	.....	3

	Cost	Sold for	Loss	Gain
INDUSTRIAL BONDS:				
Goodyear Tire & Rubber 8s 1941	121	120	1	
FOREIGN BONDS:				
Antiquia 7s 1945	91	95		4
Austria 7s 1943	101	102		1
Bergen 8s 1945	113	112	1	
Berlin 6½s 1950	89	99		10
Bogota 8s 1945	100	103		3
Bolivia 8s 1947	101	104		3
Brazil 8s 1941	104	105		1
Costa Rica 5s 1958	67	71		4
Czechoslovak 8s 1952	100	105		5
French 7s 1949	90	98		8
Greater Prague 7½s 1952	98	105		7
Hungarian Cons. Munc. 7½s 1945	94	98		4
Hungary 7½s 1944	98	101		3
Norway 5½s 1965	96	99		3
Porto Alegre 8s 1961	102	103		1
San Paulo (State of) 8s 1950	104	105		1
Seine 7s 1942	87	96		9
SHORT-TERM BONDS & NOTES:				
Argentine 7s 1927	101	100	1	
Chesapeake & Ohio 4½s 1930	98	99		1
Chgo. Rk. Is. & Pac. Ry. 5s 1929	100	99	1	
Columbia Gas & Elec. 5s 1927	100	100		
Conde Nast Publications 6½s 1927	100	100		
55 Park Ave. 6s 1926	100	100		
Peerless Portland Cem. 6½s 1927	100	100		

It will be observed from the foregoing report that the Mutual Investment Trust has diversification as to type of security, type of industry, and geographical location. Examination of the last section of the report discloses a few slight losses and an almost unbroken succession of gains. This is as it should be if management is serving its purpose. In the end it is believed that a general policy of publicity should prove the most potent factor in popularizing the American investment trust.

The Financial Investing Company of New York, Ltd., a company closely analogous in principle to the pure British type of trust, has furnished the author with statistical information covering its organization and progress from February 28, 1925, to July 31, 1927. He

TABLE XVI

Financial Investing Company of New York, Ltd.

	2/28/25	7/31/25	1/31/26	7/31/26	1/31/27	7/31/27
Assets						
Cash	$36,344.91	$43,702.16	$27,361.37	$32,144.47	$23,423.05	$79,329.33
Investments (Cost)	317,794.15					
Investments (Listed)	.....	615,639.10	726,561.99	846,040.24	931,808.74	1,376,924.02
Other assets (Including unlisted securities)	274.59	19,744.66	64,017.06	36,485.23	57,971.19	
Accrued interest on investments	5,831.68	12,176.71	12,240.81	13,129.40	12,982.84	
Accrued dividends on investment	.....	389.93	316.68	524.55	1,670.20	
Accounts receivable	.....	.....	11,789.86	45,032.85	8,058.90	109,883.12
Accrued income	.....	.....	.....	.....	.....	22,082.07
Organization expense and bond discount	.....	.....	7,646.90	15,763.96	35,208.51	
Bond discount and deferred charges	.....	.....	.....	.....	.....	100,219.45
Total assets	$360,245.33	$691,652.56	$849,934.67	$989,120.70	$1,071,123.43	$1,688,437.99
Liabilities						
Loans payable	$250,000.00	$460,000.00	$460,000.00	$460,000.00	$340,000.00	
Accrued interest	616.65	1,509.36	1,850.26	2,238.11	946.11	
Accounts payable	2,801.11	3.75	7,687.75	7,771.51	14,145.97	$9,773.84
Capital stock (Par value $10)	80,460.00	169,190.00	210,150.00	250,970.00	285,680.00	518,940.00
Surplus (Paid in)	26,149.50	55,111.75				
Profit and loss	218.07	2,793.66				
Surplus and undivided profits	.....	2,993.52	68,579.99	79,182.72	94,918.01	125,045.65
Miscellaneous reserve	.....	50.52				
Bonded debt	.....	.....	100,000.00	185,000.00	326,000.00	
Accrued interest	.....	.....	1,666.67	3,083.34	5,433.34	
Reserve for taxes	.....	.....	.....	875.02		
Secured debt	.....	.....	.....	.....	.....	1,019,500.00
Accrued interest	.....	.....	.....	.....	.....	15,178.50

believes that it will be interesting and profitable to consider this company's condensed balance sheet for the above period.

An examination of this balance sheet reveals several interesting facts. In the first place, it is clear that this company started with very little financial support and has made considerable progress. Apparently, in order to get started, heavy loans were negotiated, the purpose being to absorb them subsequently through popular subscriptions. Also, contrary to the general practice of American trusts, a heavy bond issue was authorized, and, although only a comparatively small part of it has been issued up to the present time, it is clear that the trust managers intend to handle this company along the lines of an ordinary American business corporation.

An excellent feature of the company's business operations up to this time has been the accumulation of surplus, which has risen from $2,993.52 on July 31, 1925, to $125,045.65 on July 31, 1927, partly, of course, paid in. It is clear that this trust is confining itself almost entirely to investing in securities of various kinds, thus proclaiming its adherence to the standard British type. The absence of any accounting for expenses other than organization expense is somewhat confusing, but probably arises through a contract on the part of the trust with some fiscal agent or other organization which, for a fixed fee or a commission, assumes its operating expenses. Clarification of this important element would always seem to be desirable, and it is one of the weak points of the American trust that such clarity frequently does not exist. On the whole, however, the balance sheet of this trust reflects energetic and conservative development along standard British lines.

CHAPTER XVI

SEVERAL TYPES OF INVESTMENT TRUSTS WHICH SEEM TO MERIT SPECIAL CONSIDERATION

AMERICAN TRUSTEE SHARE CORPORATION, AN EXAMPLE OF THE "BANKERS' SHARE" TYPE OF INVESTMENT TRUST

We shall now consider another kind of investment trust which originated in the United States and which at the present time is popular with many American investors. This is the so-called "bankers' share" trust, the controlling purpose of which is to afford diversification of investment while eliminating management as far as it is possible to do so. All such companies closely resemble one another in essential characteristics, the only difference being in the degree of latitude given to the trust managers to substitute other securities for those originally purchased, in case trouble develops in connection with one of them.

The investment trust chosen for particular description is the American Trustee Share Corporation which issues a security known as Diversified Trustee Shares in bearer certificates and in denominations of 5, 10, 25, 50, 100, 500, 1000 and 5000 shares with semi-annual dividend coupons. The trust has entered into an agreement with the Chatham Phoenix National Bank and Trust Company of New York as trustee, under which agreement it obtains money from the public for investment in these Diversified Trustee Shares, and with the funds thus secured purchases in units of 175 1/5 shares the common stock of twenty-four specific corporations, issuing against each unit 1000 bankers shares of its own, which shares are held in the various denominations above named by individual investors, and are secured by the common stocks of the different companies which are deposited by the investment trust with the trustee. At this particular time these companies (August 31, 1927) are as follows:

Shares	Six Railroads
5	The Delaware and Hudson Company
5	Illinois Central Railroad Company
5	Louisville & Nashville Railroad Company
4	The New York Central Railroad Company
5	Southern Pacific Company
5	Union Pacific Railroad Company

Shares	Six Public Utilities
5	American Telephone and Telegraph Company
6	Consolidated Gas Company of New York
6	The Detroit Edison Company
15	The North American Company
28	Pacific Gas and Electric Company *
$11\frac{1}{5}$	Standard Gas and Electric Company †
	Seven Industrials
10	American Car and Foundry Company ‡
5	American Tobacco Company
10	E. I. du Pont de Nemours & Company, Inc.§
5	Eastman Kodak Company
8	Kennecott Copper Corporation
5	United States Steel Corporation
7	Westinghouse Electric & Manufacturing Company
	Five Standard Oils
5	Standard Oil Company (Indiana)
5	Standard Oil Company (New Jersey)
5	Standard Oil Company of California ||
5	Standard Oil Company of New York
5	Vacuum Oil Company

* Pacific Gas and Electric Company common stock split up 4 for 1, January 3, 1927. Original unit contained 7 shares.

† Standard Gas and Electric Company absorbed Philadelphia Company May 31, 1926. Original unit contained 8 shares of Philadelphia Company common stock.

‡ American Car and Foundry Company common stock split up 2 for 1, April 22, 1925. Original unit contained 5 shares.

§ E. I. du Pont de Nemours & Company, Inc., common stock split up 2 for 1, October 28, 1926. Original unit contained 5 shares.

|| Standard Oil Company of California absorbed Standard Oil Company (California) January 2, 1926. Original unit contained 5 shares of Standard Oil Company (California) common stock.

Original unit, before split up or exchange of stocks, contained a total of 141 shares.

Of course, the apparent purposes of such an investment company is to obtain diversification of a limited type among a selected list of securities. In this particular instance there is more diversification than is frequently found in a bankers' share trust because there is diversification as to type of industry and geographical diversification as well. The salient feature of the proposition is that there is no element of expert management involved as in the case of the true investment trust. We may admit that there is expert selection before the investment is made and that in all probability the special list of stocks are selected with care and thoughtful consideration, but, once they are determined upon, the element of management disappears.

The investment trust has nothing whatever to do with the twenty-four companies, blocks of whose stock it has acquired with the money

of individual investors and used as a basis for its own securities. It neither owns, operates, nor controls these companies in any way. All it does is to purchase blocks of their stock, and, under its trust agreement, deposits these shares with the Chatham Phoenix National Bank of New York as Trustee in units of 175 1/5 shares each, issuing against such units, in every instance, 1000 of its own bankers' shares. Each bankers' share represents a $\frac{1}{1000}$ interest in each unit of shares so deposited with the trustee.

A great deal of stress is laid by the trust managers upon the fact that there is no power on the part of the Board of Directors to withdraw the stocks of the underlying companies after the same have once been deposited, in the units above referred to, with the corporate Trustee. The statement made by the American Trustee Share Corporation in its circular regarding this issue is as follows:

No Power of Substitution.—Each unit deposited as above must be identical with previously deposited units in amounts, ratio and security, and neither the Trustee nor the American Trustee Share Corporation has the power to substitute other stocks or alter the unit in any way.

This is an extreme instance of the bankers' share theory. As a matter of fact a majority of other companies which now issue bankers' shares do provide that, in the event of sudden depreciation on the part of one or more constituent issues of a standard unit, such stocks may be disposed of and the proceeds invested in some of the remaining stocks of the unit. Such a modifying provision is undoubtedly a kind of safety valve for the purpose of meeting unforeseen conditions and periods of depression which are quite apt to involve a sudden depreciation of many kinds of securities.[1]

In its pure form, however, the bankers' share investment trust

[1] For instance, New England Investment Trust, Inc., permits the sale of any security that seems in danger of passing its dividend and also allows the sale, for profit, of any security that advances 25 per cent or more above cost price. Furthermore, Nation-Wide Securities Trust of Denver, Colorado, permits the sale of securities contained in the typical investment unit under careful restriction, and this is also true of the United States Electric Light and Power Shares, Inc., which is under the same trust management. Both of these trusts prohibit the inclusion of other stocks in the trust unit except under rigid restrictions, which are fully defined, but at the same time they permit inter-substitution when necessary. In other words, if one of the underlying stocks included in the typical trust unit, which is sound at the time the unit is put together, should appear to be in a failing condition at a future time, such a stock may be sold and the proceeds re-invested among the other stocks in the trust unit.

follows the lines laid down by the promoters of Diversified Trustee Shares. It should be noted, however, that the non-substitution clause is directly contrary to one of the fundamental and essential characteristics of the standardized form of British investment trusts. In the British trust, the managers frankly rely upon opportunities to change investments by sale and purchase, and they wish to be free to make substitutions whenever the same may result profitably to the interest of their investors. It is by such substitutions and such trading in and out of securities that necessary reserves are obtained to meet the demands of lean years, and it is by such substitutions that profits are evolved which go to meet dividends and for other trust purposes. This power of substitution of security for reasonable cause is so intimately concerned with the element of expert and effective management of an investment trust that its absence deprives the trust scheme of an essential feature and changes the characteristic structure of the device to something which, while it may be excellent in many ways, is really so different from the recognized form that it is an error to call it an investment trust.

On the other hand, it should be stated in all fairness to those who have initiated bankers' share companies in the American investment field that there may be a definite advantage to the investor in the institution of such companies. The whole proposition reduces itself to a question of faith in management. It must be admitted that in the past investors in the United States have frequently suffered from inexpert management and singularly poor advice on the part of financial experts in whose judgment they placed their trust; and we should not be unduly astonished to discover that, as the result of such a situation extending over a long period of years, certain ingenious and earnest financial men have deliberately constructed the bankers' share company with the purpose of protecting the investor from the mistakes of management. With a proper clause permitting substitutions in case of impending trouble or for other good reasons, the bankers' share trust may work out exceedingly well over a period of years. Of course, the further question remains as to the additional amount of money which it will cost the investors to buy units collateraled by shares of stock in this manner. It may be noted that the small investor unquestionably secures a far greater degree of diversification by such a method than he could obtain in other ways, but in the case of the larger investor such an advantage is not nearly so apparent.

There is another thought in connection with bankers' share com-

panies which is perhaps worthy of serious attention. While the trust managers furnish no real management to the investor after the stocks composing the standard unit of the trust have once been selected, nevertheless, the investor does get diversity of management through the operating staffs of the various companies comprising the standard unit of the trust. To illustrate: In this particular instance there are twenty-four companies involved; six railroads, six public utilities, seven industrials, and five Standard Oil companies. Each of these corporations is managed by its own executives, and an interest in a unit representing all of these corporations does unquestionably give a certain diversity in basic management which inures to the benefit of the individual investor. The same thing is quite true in connection with the underlying securities held by a trust of the British type, but it is a well-conceived point of vantage and should be considered in the case of all investment companies of any and every kind.

In connection with this particular trust and among others of the same type, there is a convertible privilege which, however, is limited to relatively large holders of the trust securities. It is provided that a holder of 1000 Diversified Trustee Shares may, upon three days' written notice to the Trustee, surrender the same and receive in exchange a standard unit as above set forth containing 175 1/5 shares of the common stocks of the twenty-four specific corporations above mentioned. This is all very well as far as it goes, but it limits the possibility of conversion and makes it available only to a small class of investors.

In most bankers' share companies, the trust managers and fiscal agents receive their compensation at the time the units are sold to the individual investor, in the form of a relatively small percentage of the original purchase price. This is perfectly fair and has the advantage of being entirely definite, and unquestionably the investor gets what he pays for, i.e., selection of securities and diversification. The value of such selection and diversification varies with every investor, and no one can afford to be dogmatic about it.

In conclusion, the author feels that, while not a true investment trust in the sense that the two main objectives of management and diversification lie within its purview, the typical well-managed bankers' share corporation is a financial device closely akin to the investment trust and sufficiently imbued with its theory and spirit to be included as an investment trust of limited objective in this study of the entire field.

INVESTMENT MANAGERS COMPANY, AN INTERESTING VARIATION OF THE BRITISH FORM OF INVESTMENT TRUST WHICH MAY BE CALLED A "FUND MANAGEMENT TRUST"

The next type of investment trust that we shall examine in detail is an interesting and ingenious investment form. The trust in question is known as Investment Managers Company, and an examination of the trust indenture, dated January 1, 1925, with the Central Union Trust Company of New York as Trustee, reveals many unusual and effective provisions.

This company is neither a Massachusetts trust nor an ordinary corporation but a joint stock association formed under the General Associations Law of the State of New York. It may be said to possess two distinctive characteristics, one being that it does not issue securities, on its own behalf, to be purchased by investors, but instead issues Certificates of Participation which, when acquired by individual purchasers, give them title to a definite proportionate share in a group of securities purchased by the trust management with the fund composed of the contributions of all the investors in the trust. The other characteristic is that the underlying investments of this particular trust are restricted under ordinary circumstances to the preferred or common stock of corporations, it being a considered theory of the Board of Directors of this Company that carefully selected stocks are as safe as gilt-edge bonds and, furthermore, are more certain to result in profit over a reasonable period of time.

The machinery of this company is simple, the Trustee acting as custodian and the Company securing subscriptions to the Trust Fund and immediately turning the proceeds over to the Trustee, to be held by it and invested and reinvested subject to the instructions of the Board of Directors of the managing Company.

The form of trust certificate contains a number of interesting and unusual features. The certificates are issued in even multiples of $100, but with the minimum subscription set at $5000. The Trustee is authorized to authenticate and deliver these certificates to the Company only upon payment to it in cash, for the account of the investment fund, of the face value of the certificates so authenticated and delivered.

When the Trustee receives the funds for investment it is further authorized in its custody and care of the funds by the following provision in the investment-trust deed:

Each Certificate Holder, as the grantor of an express trust, agrees and consents that any cash so paid to the Trustee may be commingled with cash paid by other Certificate Holders and with other cash held by the Trustee in its own right or otherwise, and may be invested and reinvested from time to time by and under the supervision and management of the Company, as herein provided, as part of the Investment Fund constituted hereunder. Any Certificate or Certificates authenticated by the Trustee before the investment of any proceeds of the issue of any Certificate or Certificates shall respectively represent ten shares in the Investment Fund for each $100 Face Value of such Certificate or Certificates, and any Certificate thereafter authenticated by the Trustee shall represent the number of shares which shall be the greatest full number contained within the quotient obtained by dividing the Face Value of such Certificate by the actual value of one share in the Investment Fund as of the last business day preceding the date of issue of such Certificate. The actual value of such share shall be determined as hereinafter in Article V hereof provided in respect to the redemption of Certificates in cash.

The provisions as to the manner in which this trust shall be operated are of such interest that it seems well to quote them in full:

ARTICLE III

Management of the Investment Fund

Section 1.—Investment of the Investment Fund.—The Company shall have absolute control and management of the Investment Fund, except as herein otherwise specifically provided, and the Company shall cause the Investment Fund to be invested and reinvested from time to time as the Company may in its absolute discretion deem to be for the best interests of the Investment Fund, subject only to the following restrictions:

(*a*) The Investment Fund to such extent as it may be invested in common stocks of corporations from time to time shall not be invested at any one time in the common stocks of more than thirty (30) corporations.

(*b*) The Investment Fund shall not be invested in the Securities of any corporation:

(1) Unless at the time of such investment the securities in which such investment is about to be made shall be regularly listed on the New York Stock Exchange, and unless sales of such securities shall have been recorded on said Exchange during each of the twelve months preceding the date of such investment. (For this purpose in the case of a reorganized corporation there may be included the securities of the predecessor of such reorganized corporation.)

(2) If through such investment an amount in excess of 20 per cent of the aggregate actual value (as hereinafter in Article V hereof determined) of the shares represented by outstanding Certifi-

cates would be or become invested in securities of any corporation or corporations whose operations fall primarily within any single industry. (The determination of the Company as to the classification of securities by industries shall, however, be conclusive.)

(3) If through such investment or otherwise the Company shall control more than 10 per cent of the outstanding voting stock of such corporation.

(4) If the total capital stock of all classes issued by such corporation and outstanding, valued on the basis of the last reported sales, respectively, for each class of such stock, shall be less than $20,000,000.

(5) If through such investment the market value of the Securities of such corporation held in the Investment Fund would exceed 10 per cent of the aggregate actual value (as hereinafter in Article V hereof determined) of the shares represented by outstanding Certificates.

(c) The Investment Fund may be invested from time to time, to such extent as the Company may in its absolute discretion deem advisable, in Tax-Exempt Securities, and/or obligations of the United States of America, and/or in call and/or time loans upon collateral security consisting of stocks and/or bonds listed upon the New York Stock Exchange having a value at the time of the making of any such loan of not less than 20 per cent in excess of the amount of such loan.

Section 2.—Charges against the Investment Fund.—The Company may charge against the Investment Fund, and the Trustee shall upon the Order of the Company, pay to or as directed by the Company, out of any cash then or thereafter in the Investment Fund, (1) any expenses, taxes or other charges in respect of the Investment Fund not specifically required by this Indenture to be paid by the Company or otherwise provided for hereunder, (2) distributions payable upon the Certificates, including any accumulated distributions. The Company, however, shall not charge against the Investment Fund any expenses incurred with respect of the charges and expenses of the Trustee, the Auditor, the officers and agents of the Company, or any expenses incurred in the preparation, issuance and sale of Certificates, in the publication of notices of redemption or of notices of proposed amendments to this Indenture, or any expenses incurred in the preparation of any Supplemental Indenture; all of which the Company covenants and agrees to pay, provided that nothing herein shall be construed to prevent the Company from contesting in good faith the validity or amount of any claim or demand which may be made in respect of any such charges or expenses. Nothing herein contained shall, however, impair the lien of the Trustee on the Investment Fund for its compensation and expenses in accordance with the provisions of Article VII hereof in the event of the failure of the Company to cause any such compensation or expenses to be paid.

Section 3.—Company's Compensation.—Upon the day following the last day of each quarter of the Calendar Year, the Company may

charge against the Investment Fund, and the Trustee shall upon the Order of the Company pay to the Company out of any cash then or thereafter in the Investment Fund, a sum equivalent to ⅛ of 1 per cent of the aggregate actual value (as hereinafter in Article V hereof determined) as of the last day of such quarter, of all shares represented by outstanding Certificates on said last day of such quarter.

The above excerpt shows that the principal of the investment fund, so far as it is invested in common stocks, is restricted to the stocks of not more than thirty corporations at any one time. This is a limited degree of diversification, which, however, may be compensated for by greater care in selection of securities. It may also be noted that, while this is not clearly expressed, it is entirely possible to invest the fund at any time in bonds, call loans, or some other form of security.

Certain canons of investment are set forth in the trust deed. Among them is a requirement that securities bought for the fund must be such as are regularly listed on the New York Stock Exchange and must have been actively traded in within a period of one year preceding their purchase. This provision has the advantage of securing the judgment of the Exchange Committee concerning each stock acquired, and as the investigation made in such cases by the New York Stock Exchange is exceedingly thorough it is of distinct value as an investment canon. Furthermore, the waiting period of a year is commendable in that it eliminates new listings which may be receiving artificial support in the market.

Another restriction limits the amount of the fund to be invested in the securities of any one industry to not more than 20 per cent of the aggregate value of the shares represented by the outstanding investment-trust certificates, while not more than 5 per cent of the Fund may be in the securities of any one corporation. Another restriction is that limiting the amount invested in the outstanding stock of any single corporation to not more than 10 per cent thereof, thus preventing anything approaching stock control of a corporation which is the subject of investment. The advisability of this canon is sometimes open to question. It will be remembered that the British investment trusts often deliberately seek to control corporations, the securities of which form their underlyings. The same thing is true of the so-called financing trusts in this country, which in a general way closely resemble the British standard form. It is, of course, obvious that the reason for this particular canon is the belief that such control might readily lead to entangling alliances and to a feel-

ing of undue obligation, which, in case anything should go wrong with the particular company in question, might cause the board of directors serious embarrassment. Such a situation is not very likely to arise in actual practice, while the advantages to be derived from the stock control of a corporation are not always to be regarded lightly.

The next investment canon is concerned merely with the size of outstanding stock issues with relation to the desirability of such issues for investment, and the result is to restrict the investment of the trust principal to the stock issues of large corporations. The last canon is merely restrictive of the amount of securities to be purchased by the trust and is generally a matter of local concern.

The next provision gives the trust wide powers of investment, for it may invest its principal in stocks, government and municipal securities, bonds, and also in call or time loans having express collateral security behind them with a margin of at least 20 per cent. Section 3, entitled "Company's Compensation," provides for a regular quarterly payment of ⅛ of 1 per cent by the investors to the company for management of the fund. This provision must be read in connection with other parts of the trust deed, which provide, in addition to the general charge, that (*a*) a charge of 1 per cent on the face value of each certificate shall be paid by the subscriber in addition to the amount of his subscription, and (*b*) that 1 per cent of the actual value of the certificate shall be paid by the subscriber as of the date when the same may be redeemed.

It is believed that no American trust, and indeed no British trust, presents a better or more regular mode of compensation than that suggested by the trust of the Investment Managers Company. If expert management is worth having, it is certainly worth paying for. It is usually necessary to pay for it in the beginning or at the end without relation to the intermediate period when equally expert care is required, and therefore the scheme evolved by this Company of quarterly compensation for guidance rendered is one which should be endorsed heartily.

In order to protect its investors, the Company covenants to preserve franchises and pay taxes; to keep proper books of account; to have periodical audits made, subject to the approval of its investors; and to make annual reports to the investors on the operation of the trust.

In deciding just what the investor gets from this trust, we find that in the first instance he receives at the end of each quarter a

distribution at the rate of 5 per cent per annum upon the face value of his trust certificate or certificates outstanding at that time. The provisions as to this are contained in Section 7 of the trust deed and are as follows:

Section 7.—As to Distributions and Reports of Income.—The Company covenants that, within fifteen days after the termination of each quarter of the Calendar Year, it will cause to be paid to the registered holders of Certificates on the date of the termination of such quarter, distributions at the rate of 5 per cent per annum upon the Face Value of all Certificates outstanding at the termination of such quarter, but only out of dividends, interest, profits and other income derived from the Investment Fund, after deduction of charges as herein provided, unless the Board of Directors of the Company shall cause such distributions to be made out of other moneys in the Investment Fund; provided, however, in the case of Certificates issued within the last month of such quarter-distributions upon the Face Value of such Certificates for such quarter may in the discretion of the Board of Directors of the Company be paid at the same time as, and in addition to, the distributions payable upon the Face Value of such Certificates for the next succeeding quarter. Such distributions shall be cumulative, accruing from the date of issue of each Certificate; that is to say, in case such distributions shall not be fully paid in respect of any Calendar Year or Years then any such deficiency shall be thereafter paid as soon as may be whenever there shall be accumulated income derived from the Investment Fund sufficient in the absolute discretion of the Board of Directors of the Company for such purpose.

The Company covenants that on or before March 1 in each year it will also cause to be paid to the registered holders of Certificates as of December 31 of the preceding Calendar Year, extra distributions equal to 12½ per cent of their respective proportionate parts in any balance of such income derived from the Investment Fund during such Calendar Year remaining after provision for the above mentioned distributions at the rate of 5 per cent per annum upon the Face Value of outstanding Certificates.

The computation of the amount of distributions payable to Certificate Holders shall be made by the Company in such manner as may be approved by the Auditor. Such computation shall be delivered to the Trustee, and the Trustee shall be fully protected in acting in reliance upon such computation and shall be under no duty or obligation to verify the same.

The determination of the Board of Directors of the Company as to what shall constitute income derived from the Investment Fund as distinguished from the principal or capital of the Investment Fund shall be final and conclusive upon the Company, the Certificate Holders and the Trustee.

All taxes which may be required to be paid in respect of the dividends, interest, profits and other income derived from the Investment Fund (whether or not distributed to the Certificate Holders) other

than any income taxes which may be required to be withheld at the source, shall be payable by the Certificate Holders. To this end the Company shall mail, on or before March 1 in each year, to the registered holders of Certificates as of December 31 of the preceding Calendar Year, a statement showing the total income derived from (or net loss sustained by) the Investment Fund during such Calendar Year and the amount thereof attributable to a share in the Investment Fund. Such statement shall in addition show the sources of such income and the sources of the amount of such income attributable to a share in the Investment Fund, with sufficient detail to permit Certificate Holders to determine what portion of their respective proportionate parts in such income, if any, may be subject to taxation, under the income tax statutes of the United States of America then in force.

Nothing herein contained shall be construed as imposing any obligations upon the Company to cause the payment of any distributions upon the Certificates, except out of dividends, interest, profits and other income derived from the Investment Fund remaining after deduction of charges as herein provided but the Board of Directors of the Company in its discretion may cause such distributions to be made out of other moneys in the Investment Fund. Nothing herein shall be construed as imposing any obligation upon the Company to cause the payment to any Certificate Holder, or to any other person, of the Face Value of any Certificate or Certificates, nor shall the Company be obligated in respect of the Certificates or the payment of distributions thereon, in any way whatsoever except as herein expressly provided.

It will be noted from the above that in providing for the quarterly distribution of 5 per cent the company not only provides that the same shall be paid "out of dividends, interest, profits and other income derived from the Investment Fund remaining after deduction of charges as herein provided," but goes on to say "unless the Board of Directors of the company in its discretion may cause such distributions to be made out of other moneys in the Investment Fund." This would indicate that if the Directors consider it necessary to do so they may take dividends out of principal—something which it is difficult to approve under any circumstances. In fairness to this Company, it will be observed from their annual statement (p. 249) that a reserve has been created for the payment of the quarterly distribution, which should obviate any necessity for exercise of the above-mentioned power.

Let us consider the provision for the extra dividend equal to 12½ per cent of any investor's respective proportionate part in any balance of income derived from the investment fund during any calendar year which may remain after the 5 per cent distribution above re-

ferred to. This provision is coupled with full power on the part of the Board of Directors to determine whether or not the dividend should be paid, a power which may or may not be dangerous depending entirely upon the character of the Board at any particular time. It will be noted, of course, that under ordinarily favorable circumstances there should be each year a considerable surplusage after the holders of trust certificates have been paid their quarterly distributions of 5 per cent together with the extra distribution of 12½ per cent of the balance of income. Such surplusage, which indeed amounts to 87½ per cent of the profits over and above the regular dividends and legal charges, is apparently held as a reserve fund to be finally distributed to the various trust investors as they withdraw from the company and redeem their trust certificates.

With regard to redemption it may be said that the Company reserves the right to compel any investor to redeem at any time upon giving such investor due notice as provided in the trust deed. Such redemption may be made in kind or in cash in the discretion of the trust managers. Redemption, however, may also take place at the option of the trust investor and under the following conditions:

In order that the registered holder of any Certificate, as grantor of an express revocable trust, may at any time revest in himself title to the distributive share in the Investment Fund represented by such Certificate, the Company covenants at any time upon written demand of such registered holder delivered to the Trustee, accompanied by surrender of the Certificate or Certificates sought to be redeemed, to cause such Certificate or Certificates to be redeemed, through payment by the Trustee to such registered holder of the distributive share in the Investment Fund, either in cash or in kind at the option of the Company, represented by such Certificate or Certificates, which would have been payable in respect of such Certificate or Certificates had the Company elected to cause all the Certificates then outstanding to be redeemed as of that date in cash or in kind, as the case may be, as hereinbefore provided, except that the Trustee shall retain and pay over to the Company as a charge for the services of the Company, an amount either in cash or Securities (taken at their market value) as the Company may elect, equivalent to 1 per cent of the distributive share to which the registered holder of such Certificate or Certificates would have been entitled had such redemption been made at the option of the Company. The Company shall notify the registered holder of the Certificate or Certificates sought to be redeemed, in writing, not later than the next succeeding business day following the date of receipt of such written demand for such redemption, whether the Company shall elect to redeem in cash or in kind. In case the Company shall elect to redeem such Certifi-

cate or Certificates in cash, it shall, not later than two business days following the date of receipt of written demand for such redemption, cause to be set aside by the Trustee for account of the registered holder of such Certificate or Certificates, cash in an amount equal to the distributive share in the Investment Fund represented thereby, determined as provided in this Article. In case the Company shall elect to redeem such Certificate or Certificates in kind, it shall not later than two business days following the date of receipt of such written demand for such redemption, deliver to the Trustee (1) an Order specifying the Securities constituting the distributive share in the Securities in the Investment Fund represented by the Certificate or Certificates sought to be redeemed, and (2) a written statement of the cash, if any, necessary to adjust any fractional interests in such Securities, and to adjust any further differences, and thereupon, and upon causing such cash and any other cash payable in respect of such Certificate or Certificates to be set aside for account of the registered holder of the Certificate or Certificates sought to be redeemed, the Company shall be relieved and discharged from all responsibility in respect of such Certificate or Certificates and hereunder. Delivery of the Securities named in such Order to the registered holder of such Certificate or Certificates or to such person or persons as he may designate, as hereinafter provided, shall be made by the Trustee as promptly thereafter as any necessary transfers on the books of the several corporations, whose securities are to be delivered, may be made. The registered holder of such Certificate or Certificates sought to be redeemed may upon written order to the Trustee, satisfactory to the Trustee, designate the person or persons into whose name such Securities or any part thereof shall be transferred.

The Company may determine in its absolute discretion as to the particular Certificate or Certificates sought to be redeemed whether payment of the distributive share in the Investment Fund represented thereby shall be made in cash or in kind, and the Company shall not be bound by the manner in which any other Certificate or Certificates shall have been redeemed, whether in cash or in kind.

All payments in cash and/or in kind made upon any redemption of Certificates as herein provided shall be binding and effective to discharge and release the Trustee and the Company in respect of any liability, not only as to the Certificate or Certificates so redeemed, but as to any and all other Certificates then or thereafter outstanding hereunder, in respect of any payment in cash and/or in kind made upon any such redemption.

The provisions of the foregoing clause in the trust deed show that settlement is made with each redeeming trust investor on the basis of the total value of the fund at that particular time. The Company's charges are provided for. The company has been given previously the option to redeem in cash or in kind, and, in the event of

redemption in kind, cash is to be used to adjust fractional differences. It is not made clear in the provisions of the trust deed, but it is believed to be the intention of that document, that at such settlement of an option of redemption any accumulated profits referable to a share of the particular investor and not previously distributed to him in quarterly 5 per cent payments or yearly profit payments of 12½ per cent will at such period be paid over to him less such legal charges and expenses as are provided for in the trust deed.

Another interesting feature of this Company is the fact that its certificates are not transferable. The basic reason for this provision, which hampers if it does not limit the free negotiability of the trust certificates, seems to be a desire on the part of the Company to restrict its operations to a limited number of investors, and the limitation of $5000 as a minimum subscription points in the same direction. Nevertheless, it is possible to assign the redemption privilege of these certificates, although the assignee apparently must actually redeem them in order to profit thereby.

In considering this investment trust, it will be interesting to examine its financial condition as revealed by a comparative statement of condition taken at the close of business, December 31, 1925, and 1926, viz.:

ASSETS

	December 31, 1925	December 31, 1926
Securities Owned, at cost	$1,627,152.01	$2,787,778.59
Interest and Dividends Receivable	21,966.67	52,516.34
Call Loans	2,900,000.00	6,750,000.00
Cash	96,886.81	86,124.68
	$4,646,005.49	$9,676,419.61

LIABILITIES

Investment Trust Certificates Outstanding	$4,506,100.00	$9,187,800.00
Due Investment Managers Company (Management Compensation in respect of the quarter year ending Dec. 31, 1926, payable Jan. 3, 1927.)	5,967.93	12,268.86
Provision for Distributions at Rate of 5 per cent per Annum on Face Value of Certificates	44,102.96	110,301.61
Provision for Extra Distributions (Estimated for 1926)	11,229.33	40,000.00
Undistributed Income	78,605.27	326,049.14
	$4,646,005.49	$9,676,419.61

It may be noted from the above statement that within a period of a year this investment trust has had a most remarkable growth, the trust certificates outstanding having increased by more than $5,000,000 during that time. This, of course, has been reflected all along the line in every other item for the year 1926. Another feature of the statement is the great increase in call loans relative to the securities held which appears in the 1926 figures. While this may seem to be somewhat at variance with the basic theory of the trust, and undoubtedly market conditions have had much to do with it, it may have been a wise exercise of managerial judgment and is directly in line with the general plan of the trust in noting changes in financial conditions and shifting from common stocks to bonds and other maturing obligations, until conditions again favor common stocks.

Finally, the securities owned as of December 31, 1926, are of considerable interest and, according to the statement issued by the company, are as follows:

Number of Shares	Description of Security	Market Value		Book Value (Cost)
		Price	Amount	
	Railroad			
1000	Atlantic Coast Line R.R. Co...Common	205⅛	$205,125.00	$205,372.08
1700	New York Central R.R. Co....Common	143¼	243,525.00	220,335.78
1500	Norfolk & Western Ry. Co....Common	158½	237,750.00	220,581.63
5100	Pennsylvania R. R. Co.....Common	56⅞	290,062.50	275,046.20
2200	Southern Pacific Co.....Common	110½	243,100.00	238,643.12
2200	Union Pacific R. R. Co.....Common	162¼	356,950.00	333,088.81
	Light, Heat and Power			
2700	Columbia Gas & Elec. Corp'n..Common	89	240,300.00	242,090.00
5700	Public Service Corp. of N. J...Common	32⅜	184,537.50	163,160.74
	Petroleum			
2000	Phillips Petroleum Co.....Common	55¾	111,500.00	95,880.78
2000	Texas Corporation.....Common	57	114,000.00	106,448.61
	Other			
1200	All American Cables, Inc.....Common	145	174,000.00	163,838.21
1000	American Tobacco Co..Class B Common	121¾	121,750.00	121,495.21
2000	Kennecott Copper Corp.....Common	62	124,000.00	126,025.00
2000	Texas Gulf Sulphur Co.....Common	49⅜	98,750.00	100,162.50
1300	Westinghouse Air Brake Co....Common	139½	181,350.00	175,609.92
	Total.....	.....	$2,926,700.00	$2,787,778.59

It will be observed from the foregoing list of securities that all the stocks owned are common stocks, thereby giving no diversity as to type of investment. There is, it is true, considerable geographical diversification and a limited diversification as to type of industry, but one may question the wisdom of restricting the securities invested to thirty different issues.

The Investment Managers Company has during the past year instituted a new type of trust certificate under the name of Investment Trust Certificates Series B (Accumulative). The idea of this particular trust is to provide a means for the consistent accumulation of capital over a period of years. The provisions are very similar to those of Investment Trust Certificates Series A; but unless and until a subscriber desires to withdraw he does not receive any income from his investment, the income which the trust managers receive for him being reinvested and becoming a part of the principal of the fund, so that his proportionate interest steadily increases. Investors in certificates of this series are allowed to invest in a minimum amount of $1000.

In concluding this somewhat detailed examination of the Investment Managers Company, it must be admitted that it forms an interesting example of the manner in which the British investment-trust form may be adapted to meet certain distinct conditions in the American investment field. In many ways the Investment Managers Company is an excellent piece of investment machinery, and in the opinion of the author it has great virtues and a limited number of defects. The theory of the advantage of stock investment as opposed to bonds and other securities will always be a mooted one. Personally, the author is not by any means a convert to it; but it must be admitted that under careful supervision a stock trust of this kind is capable of large earnings and should suffer relatively few losses. The theory of expert management of investors' money, placed, as it were, in a common pool with certificates of participation instead of a security issued by the trust itself, has the merit of definitely apportioning a certain part of the trust capital to each investor and placing the greatest emphasis on skillful management carefully agreed upon and regularly paid for.

In concluding this study, we may agree that we have here certain salient features which, while reminiscent of the British form, are materially different, viz.:

1. Limited diversification, apparently intended to be confined to stocks, but in reality not so restricted.

2. Expert management paid for in three ways, with a provision for quarterly remuneration in return for regular investment service and advice.
3. Restricted transferability, evidently intended to keep the investors limited as far as possible to the original subscribers.
4. Regular dividend payments, but with a provision for an additional payment of a fixed percentage of surplus income.
5. Provision of a surplus reserve, apparently composed of 87½ per cent of surplus income, the same to be distributed from time to time to redeeming subscribers after the deduction of specified redemption and management charges.
6. Optional redemption on the part of any subscriber, with the choice of paying off such subscribers in cash or in kind left to the discretion of the company; and compulsory redemption in cash or in kind at the option of the company.
7. Absence of a power to borrow money through the issue of debentures or securities, this being inherent in the theory of the trust which eliminates the trust itself as the security-issuing body and places the fund in direct connection with the subscribers, who participate therein and consequently do not own securities by the trust.
8. Careful provisions preventing stock control of any underlying corporation, which differentiate this company from the financing form of British and American investment trusts.
9. Freedom to invest the principal of the trust fund in call or time loans on a 20 per cent margin.
10. Apparent freedom, should necessity arise, to make quarterly payments of a 5 per cent dividend to trust investors, wholly or in part from the principal of the trust fund.

The foregoing summary is arresting because it shows how far from the historic form the investment trust has moved in this country. It would be unwise to predict how much further it may move in the near future. This does not mean that many of the points above enumerated are not sound, well-conceived, and thoroughly adapted to a portion of our investment field; indeed, such is believed to be the case. This particular trust is deeply interesting, however, because its managers have not feared to disregard precedent and materially to alter standard forms. It is believed that the Investment Managers Company constitutes one of the most carefully constructed and ingeniously planned investment companies in the United States.

THE ALEXANDER FUND: AN INTERESTING VARIATION OF THE STANDARD TRUST

We shall now consider a sporadic example of the investment-trust idea which does not coincide in form with either the British or the American trust and which antedates the American type by at least fifteen years. Such an association is the Alexander Fund, which was organized in 1907 by Mr. W. Wallace Alexander of Philadelphia and which ever since that time has continued to function profitably and has drawn to itself a considerable number of local investors without the use of any considerable amount of advertising or solicitation. To understand this organization, one must recall that in the State of Pennsylvania building-and-loan associations have for many years been leading features in the investment picture and that all the citizens of Pennsylvania are educated to understand and make use of the building-and-loan association. Therefore, it was a natural thing for several gentlemen to take the building-and-loan idea and adapt it to cover the investment field. The Alexander Fund is an unincorporated association which invests money in its care in issues of stocks and bonds, collects incomes and profits on investments, and distributes sums to the participants in the Fund, it also being understood that the participant in the Fund is simply a shareholder in the corporation. This little association has been in operation since 1907, or for twenty years. It was started with $1200, and on February 1, 1928, it had grown until its capital assets amounted to $2,612,474.82.

Its method of issuing its own securities was adopted from the building-and-loan association, its securities being issued twice a year, May 1 and November 1, in units of $100, with the rate of return beginning at 6 per cent and increasing. It should be noted that to-day the returns on the various series range from 6 to 13 per cent per annum. In addition, all series have an accumulated surplus which is payable to a participant on demand. The Fund distributes profits four times a year, February, May, August, and November. With regard to the standards of value and diversification adopted by the Alexander Fund, it is stated that the securities of the Fund are listed on the Philadelphia, New York, and Chicago Exchanges.

They embrace nearly every form of enterprise, banks, Trust Companies and other financial institutions; chain stores; chemicals and oils; copper and other mines; car building, locomotive and other engine construction; cement and steel; electrical supplies, gas, etc.; express, railroad-shipping and telegraph; motor companies, street railways, tobacco, elevator construction, food products, glass, rubber, sugar, wool and other industries, and government bonds.

Not more than 3 per cent of the Fund's money is invested in any one security.

It is an interesting feature that no series has a fixed maturity date, it being provided that a participant may withdraw at any time by presenting his receipt at the Fund office. He receives the market value of his unit at the date of withdrawal. He does not have to find a purchaser, as is usually the case with inactive securities. He simply turns his unit back to the Fund. The participant does not really purchase a standard form of security through the Alexander Fund, as he would if it were a corporation. It is really a high type of investment pool where he receives upon payment of cash an engraved receipt in a form resembling a stock certificate which accompanies his payment and which certifies to a certain interest in the Alexander Fund withdrawable on demand under the rules. Mr. Alexander's statement concerning this matter is as follows:

Fund units are better secured than most bonds. As security behind a bond there is generally one line of business, but behind every $100 invested in the Fund there is practically every type of enterprise. No investment in a single security is ever safe. The best has occasionally failed. But a combination of stocks and bonds representing all important industries (such are Fund units) is the safest of all investments yielding 6 per cent or over. When one line of business is poor, another may be flourishing. The entire holdings of the Fund could be sold and the Fund placed in position for liquidation within a couple of days. This is a most unusual condition.

It is also claimed that of the thirty-nine series in operation at this time all are over par, and that the average value of the units is $166.03 (Feb. 1, 1928). It is also interesting to quote Mr. Alexander's statement on the question of overhead expense. He says in this connection (August, 1927):

One of the biggest items of expense in handling any concern is compensation of executives. Experienced officers command large salaries. Many organizations of small capital fail to yield returns to shareholders because of their salary lists. Knowing that for years the Fund would not be large enough to pay a manager, the originator proposed that in lieu of a salary he be paid a commission on any distributions to participants, and on accrued profits. This commission constitutes his only compensation. He receives no salary or other emolument. The only other expenses at present consist of the rent of a modest office, the salaries of three clerks, and some printing and postage; so it is evident that the income of the Fund cannot be ex-

hausted by administrative charges. With slight increase in the present organization the Fund could be handled even if it grew to several times its present size.

It should also be noted that all the investments are not kept by the manager of the Fund but by a bank which really acts the part of a trustee. The manager's actions are checked by a board of five overseers, selected from the participants of the Fund, and there is also a semi-annual audit by certified public accountants, so that approximately all of the precautions taken by the average investment trust are a part of the program of the Alexander Fund. To sum up with regard to the Alexander Fund, we may say that it is small, local, and unincorporated, but that its manager and overseers are men of fine reputation, its bond house is a reputable one, and it may therefore be regarded as an early example of the true investment trust. It differs somewhat from the typical investment trust in unimportant details of form, and for a considerable period it differed in size; nevertheless, it may be said to be a small, successfully managed investment-trust device. The most serious criticism which may be made is the fact that the Fund is apparently a one-man organization and it might not prove to be nearly so successful in the event of the death of the acknowledged managing director-head. The Twenty-First Annual Statement of the Alexander Fund and the table showing its Seventy-ninth Quarterly Distribution, as well as the report to the Banking Department, of February 1, 1928, are subjoined hereto.

THE ALEXANDER FUND

TWENTY-FIRST ANNUAL STATEMENT

Eighty-Third Quarterly Distribution

1228 Land Title Building,
Philadelphia, February 1st, 1928

To the Participants:

The Fund has reached a position where it is being studied by college economists, copied by financiers, referred to by authorities, and accepted by investors. Correspondence and interviews tell us this, and the founder of the Fund may be excused for feeling proud of the results on this twenty-first anniversary. One of the best things accomplished has been the development of the habit of saving. Small

subscribers have been encouraged to set aside their dividend checks for re-investment; the result being that many participants who started with very little are now holders of many Fund units. Our splendid growth has been due not to large participations, but more to these small contributions regularly added to. Of course it is the unbroken line of dividends, and the steady increase in unit valuation, which has stimulated this growth.

During the twelve months to date the number of participants has grown from 659 to 883, the amount deposited from $1,421,200 to $1,818,100, and total investments from $1,939,569.89 to $2,612,474.82. The average net earnings of the Fund over the twenty-one years, based on one unit in each series, has been 15½% per annum, after deducting manager's commissions and all expenses.

The quarterly distribution per unit payable today, is as tabled below. When received by a participant, the enclosed check should cover the amount to which he is entitled under this declaration. Regular distributions have been made on all series since their formation.

DISTRIBUTION

Series		Per Cent per Annum	Series		Per Cent per Annum
E	$4.25	17	Y	2.50	10
F	3.25	13	Z	2.50	10
G	3.75	15	AA	2.25	9
H	4.00	16	BB	2.00	8
I	3.75	15	CC	2.50	10
J	3.25	13	DD	3.00	12
K	3.00	12	EE	3.00	12
L	2.75	11	FF	3.25	13
M	2.50	10	GG	2.50	10
N	2.50	10	HH	2.50	10
O	3.00	12	II	2.50	10
P	2.50	10	JJ	2.50	10
Q	2.75	11	KK	2.50	10
R	3.25	13	LL	2.00	8
S	3.00	12	MM	1.75	7
T	2.50	10	NN	1.50	6
U	2.50	10	OO	1.75	7
V	1.75	7	PP	1.50	6
W	2.25	9	QQ	1.50	6
X	3.00	12	RR	1.50	6

After deducting this distribution and manager's commission thereon, and all expenses, the value of the several series as of January 14th, 1928, was about as follows; the dates in the table being those upon which the series were issued:

Series			Series			Series		
E	1908	$228.73	S	1915	$183.88	GG	1922	$162.39
F	1909	191.27	T	1915	160.99	HH	1922	154.18
G	1909	209.46	U	1916	161.42	II	1923	153.75
H	1909	217.91	V	1916	131.22	JJ	1923	160.82
I	1910	204.00	W	1917	148.59	KK	1924	155.09
J	1910	188.88	X	1917	176.82	LL	1924	143.34
K	1911	181.22	Y	1918	161.52	MM	1925	129.87
L	1911	172.73	Z	1918	160.84	NN	1925	115.42
M	1912	162.60	AA	1919	149.13	OO	1926	120.11
N	1912	160.24	BB	1919	138.86	PP	1926	115.84
O	1913	176.03	CC	1920	163.73	QQ	1927	111.29
P	1913	163.04	DD	1920	178.87	RR	1927	103.28
Q	1914	165.71	EE	1921	182.98			
R	1914	187.02	FF	1921	192.02			

The average value of the holdings of a participant owning one unit in each series as of January 14th, 1928, was $166.03.

Your manager's statement of a year ago, that despite the fact that securities were considered too high, he did not look for any set-back, but rather for a continued improvement, has been borne out. Values have increased considerably during the year. It is my opinion that the markets of the immediate future will be of the drifting type, with occasional chances for good profits in individual stocks; attended by a continuance of the gradual passing away of securities without merit, the latter type being those of many of the corporations formed during the war or the post-war period, and depending upon abnormal conditions for successful operation. Great care in selecting should be exercised at this time. Strict attention and study is becoming more and more imperative.

The basis of compensation for services of your manager has always been 10% of income and profits: that is, ten cents to the manager for each ninety cents paid to a participant. In order to avoid misunderstandings, it has been decided to re-word Rule 18 so that it will read: "Whenever a current distribution from profits and income is decided upon, the funds so to be distributed shall be set aside, and of such sum ten per cent shall be paid to the manager and the remaining 90% to the participants. This refers to the present quarterly distributions of income and profits, and to any special distributions ordered, made at the same time to all participants; and has no bearing upon the withdrawal of units, which is already provided for in Rule 12." This amendment has been approved by counsel and by your overseers, and will go into effect at once. It means no change in the present dividend rate.

Colonel William P. Barba, formerly one of our overseers, has consented to serve again in that capacity. Colonel Barba is associated with many of Philadelphia's leading industrial and civic movements, and director of numerous corporations. His return is most welcome.

The manager wishes to express his appreciation of your confidence, and to congratulate you on the interest shown and the care taken by the overseers.

Respectfully submitted,

W. WALLACE ALEXANDER,
Manager.

Overseers

WILLIAM P. BARBA,
Director of many corporations.

ARTHUR L. CHURCH,
Secretary, The Baldwin Locomotive Works.
Trustee, University of Pennsylvania.

SPENCER P. HAZARD,
Treasurer, R. D. Wood and Company.

WILLIAM O. MILLER,
Comptroller, University of Pennsylvania.

WILLIAM G. MOORE,
President, Moore Securities Company.

ALEXANDER SAVINGS ACCOUNT

Report to State Banking Department, December 31, 1927

Liabilities		Assets	
Due depositors	$230,225.65	City of Philadelphia Bonds	$54,000.00
Capital paid in	25,000.00	Securities, market value	228,317.50
Surplus	48,081.18	Loans on collateral	6,950.00
		Cash	14,039.33
	$303,306.83		$303,306.83

Allows 5 per cent interest on deposits

W. WALLACE ALEXANDER,
Trading as Alexander Savings Account,
1228 Land Title Building, Philadelphia, Pa.

CHAPTER XVII

AMERICAN INSTITUTIONS AKIN TO THE INVESTMENT TRUST

THE INVESTMENT BANKER

The Investment Banking System in the United States.—The development of what is known to-day as the American system of investment banking dates effectively from the reconstruction period subsequent to the Civil War. It is quite true that from the early days of our Government there were bankers in our eastern cities to whom individuals turned for investment counsel, but in most instances such advice was given by individuals to individuals. The semi-meteoric careers of our First and Second National Banks and of the many State banks which were coincident with them, and indeed survived them, are here passed over as temporary features of American finance.

Corporations as we know them to-day developed after the Civil War. Along with the unexampled corporate development of those times, there were also evolved great banking houses and a large number of investment houses of moderate and small size grouped around the really big ones which for many years were to be found only in the City of New York. It is common knowledge that in America the term "investment banker" does not mean a commercial bank or a savings fund, but means, in its simplest sense, a dealer in securities who may or may not be a member of a stock exchange because many investment bankers deal almost entirely in bonds and, when they do trade in stocks, do so through some member of the exchange. Therefore, with a clear idea of the terminology involved, let us examine the national situation which has developed until it constitutes what is now known as the investment-banking system of the United States.

There are three principal types of investment bankers in this country. In the first place, there are the great houses of issue situated in our metropolitan centers and typified by such firms as Kuhn, Loeb & Company, J. P. Morgan & Company, and Dillon, Read &

Company. In the second place, there are many more houses of moderate size but also of considerable power—houses perhaps somewhat local and yet relatively strong in a large territory, such, for instance, as Redmond & Company, Hemphill, Noyes & Company, C. D. Barney & Company, and Halsey Stuart & Company. Finally, there is an exceedingly large number of smaller investment organizations, some of which are corporations, some of which are partnerships, and some of which are individuals; and these smaller groups are really the antennae of the big originating organizations. They cover the entire country; they penetrate every country town; and it is through them that large issues of securities obtain a national market.

In the usual course of security distribution all three types of houses play their parts. We are now considering security issues of considerable size which cannot be handled by a single house or even by a relatively small group of bankers. Consider for instance, a bond issue of a large tire manufacturing company, amounting, let us say, to $30,000,000. Such an issue will be originated, or "put out" as the term is, by one of the big metropolitan houses which originate issues of sufficient size. By this house the bonds in question will be distributed among a certain number of houses forming an underwriting syndicate. These houses in turn will in most instances redistribute a considerable part of the allotment to other investment bankers, who will in turn redistribute to individual investors. Also, on occasion, the syndicate manager may form a second underwriting group for the express purpose of marketing the bonds. This group is known as a "selling syndicate" and divides the risk of merchandising just as the original group divided the risk of purchasing.

In making this explanation, it must be recognized that a good deal of overlapping is certain to occur at all points. It is quite possible that individuals of large means may be permitted to buy part of the securities from the originating house or any other investment house involved in the distribution. It must also be explained that underwriting syndicates are fluid and are formed, with the least amount of legal action possible, from a large group of interested investment bankers, many of whom may be in a syndicate handling one issue and out of a syndicate handling another. It is the very evanescence and intangibility of the system which make it difficult to represent on paper. Nevertheless, it is true that national distribution of investment securities is obtained to-day in America

principally through the workings of the investment-banking system which the author has just attempted to describe.

We cannot understand this system of distribution unless we realize from the outset that its outstanding feature is the tremendous power which is possessed by the great originating houses of the country and, in a lesser degree, by the strong organizations of the second type. The latter often bring out relatively small security issues on their own account and do, in a less extensive but equally powerful manner, the same thing that the big houses do.

The individual investor is in touch with several investment bankers. In many instances he personally knows only those who belong to the third type, the smallest group of all, although it may happen, especially in a large city, that he is acquainted with a partner or employee of a house of the second grade. Rarely is he directly in touch with any member or employee of one of the few big originating houses of issue. The investor has money to invest. Sometimes he asks a friend who is in the investment-banking business for advice as to how to invest it. More frequently his friend looks him up and proffers the advice of his own accord. The situation of the investor is likely to resemble that of a hungry man who sits down to a table d'hôte luncheon on the American plan. Such a man says to the waitress, "What have you got?" The waitress says, "Hot or cold soup, roast chicken or boiled ham, carrots, mashed potatoes and string beans, strawberry ice cream or chocolate cake." The man may not care for soup, hot or cold, he may loathe chicken and detest ham, and he may not even enjoy chocolate cake; but he has got to eat some of those things or go hungry. So, when the American investor gets in touch with an investment banker he has got to take what the investment banker has to sell or go elsewhere, and oftentimes he knows not where to go.

What does he get? He gets what the investment banker has had to take, and that is what he has acquired either directly or indirectly from one of the great originating houses of the country. Oftentimes the investor does not realize that what is being offered to him is a limited group of the most recent issues put upon the market by the big metropolitan houses. It is true that some investment bankers, especially if pressed by their customers, will sell old issues when they are obtainable in preference to the new wares which decorate their shelves; but the temptation undoubtedly is to get rid of the recent commitment and also to make a quick and sure profit and turn to other fields to conquer. In saying this, the author is

not criticizing investment bankers as individuals but is trying to explain fairly the situation as it exists at the present day. Furthermore, it is only just to state that the investment-banking profession as a whole endeavors earnestly to serve its customers, protect their interests, and treat them with fairness and due consideration; nevertheless, the fact remains that a nation-wide market for issue after issue of securities is obtained by constant pressure from the big houses which originate the issues and pass them on down the line to the ultimate consumer.[1]

The author does not deny that this system has its advantages as well as its disadvantages; but it has certain glaring faults which he believes it will be advantageous to reveal and comment upon. One of these faults, and an outstanding one, is the limitation of the power of selection which this system places upon the great majority of the investment bankers of America. Only within narrow limits can these houses really select the goods they wish to sell. The big houses of issue and the strong metropolitan investment organizations dictate, to an almost absolute degree, the character and the amount of securities which thousands of individual investors are ultimately induced to buy. The smaller the investment banker the less he has to say as to what he will sell; and, furthermore, the smaller the banker the more closely is he connected with the great mass of the investing public and the more direct and personal is the relation of trust and confidence which exists between him and his friends and customers.

Methods Employed by the Investment Banker to Protect the Customer.—Admittedly, the investment-banking system prevails generally in the United States to-day, and it is through the services of the investment banker that the great majority of investors, both individual and corporate, place their funds. Therefore it is clear that such a system must necessarily contain provisions intended to

[1] The force of the above statement should be qualified. There is no available supply of seasoned bonds to enable investment bankers to sell them at a profit. Bonds when placed tend to stay placed even when they are declining in value. New issues are sometimes overbought for special purposes and later come on the market unexpectedly thus causing a secondary supply which may or may not be handled by a selling syndicate. Sometimes large blocs of seasoned bonds are purchased by brokers from large banks, trust companies or other institutional buyers, in which event such bonds are "eased" into the market at more or less pegged prices until the entire lot is disposed of. On behalf of the banker it may be said that the main reason why they seldom deal in seasoned bonds is because they are hard to obtain and there is little profit in selling them.

safeguard the interests of all classes of investors. Let us see just what these provisions are and try to ascertain how well they function.

In the first place, let us see what reliance the investor may place upon the selection of the securities which are offered to him for sale. One very important safeguard is the preliminary investigation, which is described in the paragraphs that follow.

Ordinarily, all preliminary investigations are made by the original house of issue, which, in the case of large loans, is likely to be one of the great metropolitan houses, and in the case of smaller loans is probably one of the more numerous second group which are strong and of good size although not among the few powerful firms at the top of the profession. It is fair to assume that before every issue is put out there is an investigation by the house of issue. This is the more readily assumed because, while the banking firm has developed a corps of experts to do the work, the expenses are usually paid, at least in part, by the promoters or the corporation which desires to place the issue in question with the investment house.

In outlining such an investigation we must remember that a great deal depends on the type of business and the financial character of the borrower. A strong well-known corporation engaged in an established business, with a good record and a reputation to sustain, will very probably be subjected to a much less intensive investigation than would be accorded to a group of promoters about to launch a new electric railway or some other unseasoned enterprise. Briefly, the first investigation is factual and scientific. It is usually accomplished through the agency of engineers and accountants. If the business is already in existence its departments of production and distribution are thoroughly looked into. If, on the other hand, it is a new enterprise such as a projected railway, the possibilities of future traffic, geographical availability, and many other points are made the subjects of careful research by those charged with the responsibility of the investigation.

In addition, the lawyers representing the investment-banking house delve into every detail of the borrower's past from the day when the application for its charter was filed down to the date of the application for a loan. All mortgages are checked up, all liens and encumbrances have to be explained, and the minute book is carefully perused from the date of incorporation to the time of the examination.

As has been said, the great investment-banking houses have established a corps of experts for the very purposes above men-

tioned. Often engineers are employed upon annual retainers, and more experienced engineers are retained in a consultive capacity. In addition to auditors and accountants in the service of the investment house itself, nationally known accounting firms are employed whenever an important investigation is to be undertaken. Through all these agencies the house of issue endeavors to place the new proposition in the rays of a searchlight, as it were, and develop its good points and its bad points nakedly and clearly so that anyone of average common sense may understand fully just what it is that the public are to be asked to buy.

Assuming that this preliminary examination has proved satisfactory, the time arrives when the smaller distributing houses deserve to have the new issue explained to them so that they in turn may be able to elucidate the matter to their customers and, in a word, sell the goods. This explanation is likely to be given in two ways: First, data are prepared for the use of the distributors; a letter from the president of the borrower is carefully written (very seldom by the president himself) and he gladly signs it on the dotted line. Then, with this letter as a basis, a bond circular is constructed and is released to the trade, the letter occupying the two inside pages of a long four-page folder—that peculiar attribute of American finance. The first page bears a summary statement of the amount and chief characteristics of the new issue of securities. The next two pages contain the president's letter, giving the history of the company, all pertinent financial information, usually a statement as to earnings, and sometimes a balance sheet, often condensed. The back page may be blank or may contain further information about the loan and the name of the issuing house or houses. Sometimes the name of the distributing house is added by permission of the house of issue.

The house of issue seldom stops there, and it is quite proper that it should not do so. The old saying that "seeing is believing" is usually followed, and the next explanatory step is likely to be quite an enjoyable affair for the bond salesmen concerned. The house of issue, usually through its high officials, invites them to go on a trip to the property, and very often a special train is leased to transport the members of distributing firms and their bond sales force upon such an investigating expedition. The men are taken over the property, usually well entertained, and return to their various localities with a first-hand knowledge of the physical conditions of the borrower and the plant and property secured by the loan. Such an

investigation, of course, is not employed in connection with collateral trust mortgages, but it is used where there is definite property back of the security issued.

This, in a brief form, is the American system of initial investigation of investment propositions. While it has many good points and has functioned perfectly in a great number of cases, it has certain distinct disadvantages and a rather long list of failures in its record. Back of it all lies the enormous power of the great investment houses of the country and the unwritten but drastic code of the American underwriting syndicate. It is true that the large houses of issue do not wish to make mistakes and try in every legitimate way to avoid them, but no man or system is infallible and mistakes have occurred and will occur in connection with the investigation of investment opportunities. When all is said and done, the fact remains that the little fellow in the investment world must take the word of the big fellow upon the worth of the security which he is to offer for sale, or else cease his activities; and if he once declines an opportunity to join an established underwriting group it is quite unlikely that he will be given a similar opportunity again.[2] Therefore, the position of the American distributing house, with regard to its customers, is such that it must make every effort to obtain for these customers the greatest possible degree of diversification in their investments, so that if by chance one or two securities which the house has sold them go "sour," as the saying is, it will not seriously affect them financially and will not cause

[2] A friend of the author's who is an investment banker comments upon the above statement as follows: "The smaller banker is not punished for declining once or twice to join in a syndicate issue; but he is likely to be left off the list for refusing to join in the sale of some issue which will probably prove to be difficult to sell. In other words, if he doesn't help with the hard ones he won't get a chance at the easy ones.

"Since the war the practice has been to invite a much larger group of dealers to join in placing speculative issues than would be invited to participate in an underwriting of standard securities. In this way each subscription is reduced to an amount which it is believed will be easily placed among speculatively minded clients.

"The power of the syndicate manager is so nearly absolute that it leads to serious abuses. The hour of allotment when it arrives precipitates a guessing contest. If the issue seems to be an assured success the manager of the syndicate will reduce allotments right and left to increase its own profit while would-be subscribers will sometimes ask for much larger subscriptions than they are able to take in order to be sure of getting something. At best the system is unattractive."

them to distrust the investment house which sold them the security. The real difficulty is met when an investment house seeks to obtain diversification in investment for its customers, because the amount of diversification obtainable is in direct proportion to the amount of money which the client has to invest. It is a comparatively small matter to give a considerable degree of diversification to a customer who has purchased $1,000,000 worth of stocks and bonds through his investment banker, but it is extremely difficult to give proper diversification to the investments of a customer who has from $5,000 to $10,000 to invest. This difficulty is constantly before the mind of the conscientious and careful investment banker and has caused him to develop what may be called a second line of defense. This is, in a word, a system of supervision, personal advice, and, in case of trouble, direct assistance, which he affords to his customers even after they have purchased securities from him.

Post-sale Service of the Investment Banker.—Let it be clearly understood in the first place that there is no legal reason why post-sale service should be rendered, but it must be afforded if the investment banker desires to protect his customer and keep him satisfied.

The methods and devices used to protect the customer assume a variety of forms. One of the most important is the maintenance of a statistical department. This part of the organization of an investment house is of comparatively recent origin and has resulted from a demand, on the part of executives and salesmen, for a reliable source of statistical information which would enable them to talk intelligently to customers and protect their interests. Even to-day there are many relatively small investment houses, that do not maintain statistical departments, but the number of those that do maintain them is continually increasing. The work of the statistical department consists of daily examinations of markets, stock and bond prices, current financial statements, and general financial news. All this work is done in an effort to obtain all facts that may in any way affect the trend of prices or the value of the securities or assets of any corporation in which the particular investment house or its customers happen to be interested. Statistical departments do not confine themselves to the issues of their own houses but compile information upon all important phases of finance, wherever found. Furthermore, such national investment services as Moody's, Poor's, and Brookmire's are freely used in connection with this work. In addition, financial statements are obtained at regular intervals from all companies whose securities have been sold by the

house in question. When this material has been obtained it is used in a number of ways. It goes, in the first place, to the members of the firm or the officers of the investment-banking house, and is then communicated to the sales force. Finally, many investment-banking organizations publish periodically financial news sheets or letters of advice which are either distributed gratuitously to their customers or else published for a subscription price in the form of a regular financial news service.

Every investment banker keeps a careful list of past and present customers, usually in the form of a card index, and as far as possible all the security holdings of each customer are also listed. Certainly, all securities that have ever been sold him by the investment banker are carefully noted. It is part of the work of the statistical department to follow the interests of each customer in connection with the daily financial news and to notify a customer when his account needs attention. It may be that he holds certain bonds subject to call and the statistical department notes that by advertisement they have been called. Since it is entirely possible that the customer may overlook such an advertisement, it is proper, and it is also good business, to notify him about it and assist him in surrendering his bonds and obtaining the money for them. Of course, at this time an opportunity for reinvestment is also present.[3]

It may happen that bonds held by the customer are defaulted. In this case an immediate and pressing need for protective work presents itself to the investment banker. If, as is probable, he has sold a considerable number of such bonds, he must represent the interests of his customers and see that they get as much out of the situation as it is legally and practically possible to obtain. An occurrence of this nature often involves a considerable number of investment houses and the situation becomes one of general import. The largest house, usually the originator of the issue, should and usually does assume the heaviest burden, and it is likely to be the investment organization which steps into the breach and leads the financial forces that seek to solve the difficulty and reorganize the

[3] Perhaps too rosy a picture has been painted of the average statistical department. Truth compels us to acknowledge that oftentimes statistical departments are operated along extremely selfish lines. Inquiries are answered by full information as to the issues offered by the house with but fleeting references to other securities and the investigations conducted and information furnished are governed and colored by the financial advantage to be gained by the banking house maintaining the department in question.

threatened company. This is done either by advancing money to a failing corporation in the form of loans, or by purchasing coupons, the latter course being pursued in cases where it is believed that if an installment of interest is paid a recovery may be had. If such temporary measures of relief seem insufficient, it will probably be necessary for the investment-banking group concerned to form a protective committee representing the security holders and endeavor thoroughly to reorganize the corporation which is in trouble so that it may start life anew with a better chance of success.

It should be pointed out that there is a twilight zone in the field of post-sale customer protection which does not seem as yet to have been efficiently covered by American investment bankers. By this is meant the ascertainment by the investment house of the first signs of financial illness on the part of securities sold to its customers, and the initiation of adequate steps to get the questionable security out of the customer's account before trouble actually occurs. It is frankly admitted that this is a very difficult thing to do, because a company that is in difficulties is apt to conceal the fact until the last minute, at which time it is very likely to become common property. Furthermore, if inside information can be obtained it is often improper and indeed impossible to resell the securities without at least to some degree misrepresenting their actual worth. Nevertheless, the existence of this situation is a really weak point in the post-sale protective service of the American investment banker and leads to most of the actual losses suffered by individual customers. It is here that diversification becomes less of an ideal than a practical necessity, because a small loss is much less serious than a large one, and with wide diversification of risk the failure of one security, which may be inevitable, will not cause undue annoyance or suffering to any investor.

In concluding this review of post-sale service it is well to emphasize the important part which the security salesman plays in connection with all such service to the customer. The stock and bond salesmen of the country are the direct points of contact between investment houses and the general public. Each salesman has his own special customers, and he should and often does regard them as his financial wards. Their interest is his interest, their welfare his charge, and their danger his anxiety. The author believes firmly that the average bond salesman sincerely endeavors to serve his customers to the best of his ability; but that ability is

limited to an extent by the commitments of the house which employs him, the nature of the securities which that house gives him to sell, and the connections which that house maintains with the underwriting syndicates formed by other houses with which the salesman has no relation whatever.

In summary, it seems fair to conclude that while a great deal of money has been spent and much thought exercised to perfect and extend the past-sale service of investment-banking houses in the United States, the result has been only partially successful and cannot, in the very nature of the situation, be much more successful in the future than it has been in the past. There is no doubt that a considerable number of investment bankers have managed to attain one objective of the investment trust, which is good management of customers' securities, although, of course, many bankers have managed their customers' affairs badly. But where the system seems to have failed most lamentably is in connection with the second great objective of the investment trust, namely, diversification of security or spread of risk. There is no way by which the system as it exists to-day can be made to afford proper diversification in the majority of cases, as the possibility of diversification is directly proportioned to the amount of money invested by the customer. Hence we may perceive that the investment banker, in spite of sincere and earnest effort, is severely handicapped in affording to his customers the investment protection which their needs inevitably require.

Some Concrete Examples of the Way in Which the American Investment-Banking System Operates Protectively.—It will be of interest, in connection with what has just been said, to examine briefly a few actual occurrences in the financial world which demonstrate the way in which the investment-banking system operates in giving protection to the investor. It will be seen from these various actual instances that sometimes the system works efficiently, sometimes it affords partial protection to those who have bought securities from the company which is in difficulty, and sometimes it fails to afford any substantial degree of protection to investors.

In 1922 a prominent banking house sold $2,500,000 worth of seven per cent Cumulative Preferred Stock of Phillipsborn, Inc., a company engaged in retailing, by mail, men's, women's and children's wearing apparel. A superficial examination of the balance sheet, dated June 24, 1922, would seem to show that the company at that

time was in a sound financial condition with adequate equity for the proposed issue of preferred stock. The earning statements for the years 1915 to 1921 also appeared to be satisfactory. They were as follows:

1915	$93,962	1919	912,417
1916	106,553	1920	1,160,525
1917	262,521	1921	1,093,056
1918	550,514		

Looking at the statement of earnings, especially for the year 1921, when a profit was shown amounting to $1,093,056, which was only a little less than the profit listed for 1920, this question immediately presents itself: What was the experience of competitors during this admittedly bad year? Sears, Roebuck & Company showed a deficit of some $7,000,000 for the same period of operation. Montgomery Ward & Company also operated at a deficit during the same period. How, then, could the Phillipsborn Company enjoy such prosperity when its competitors were running at a loss and the country at large was suffering from a nation-wide depression? The explanation is that the Phillipsborn people had been selling on future contracts. When prices declined, as they did in 1921, they purchased their goods at lower prices, held the buyers to the higher contract price, and as a result made a considerable profit. This policy, however, while partially maintained in 1921, proved to be a flat failure in 1922. As a result the company never paid a single dividend on the Seven Per Cent Cumulative Preferred Stock. It would be going beyond the purpose of this illustration to attempt to analyze the additional factors which may have had a part in the failure of this corporation. 1922, with its reduced earnings, found the corporation in difficulty.

When the storm broke, as it did quite rapidly, the bankers earnestly endeavored to afford their customers post-sale protection. They applied to the stockholders and asked them to subscribe $1,500,000 additional stock, offering on their own part to subscribe to a large block. The $1,500,000 was raised, but the company's difficulties were not permanently relieved. On July 9, 1925, a receiver was appointed. On July 29, 1925, the following statement was issued by Mr. J. L. McInerny, vice-president: "The underwriters of the company's preferred stock have put $2,000,000 of their own money into the business during the past eighteen months, represented by the

purchase of common stock, in an effort to maintain profitable operations. This represents an actual loss to them of that amount. The assets of the business will be liquidated, but it cannot be stated what will be available for payment of the company's obligations."

Another example of post-sale service occurred in connection with the Atlantic City Gas Company. Several years ago two leading houses sold $3,374,000 worth of that company's First Mortgage Five Per Cent Sinking Fund Gold Bonds. The bonds were well secured and had a wide market. Shortly after the bonds were disposed of, it was realized by the investment bankers that the sinking-fund provisions were too drastic in proportion to the volume of the company's business. Expert knowledge at this point prevented a default. The bankers explained the situation to the bondholders with the result that by agreement the sinking-fund requirements were suspended for three years, 1919 to 1922, after which the company was able to meet once more the requirements of the sinking-fund provisions of its mortgage. In this instance the continued interest of the bankers after the bonds were sold prevented a default and was beneficial to all concerned.

Sometimes the investment banker provides financial support at a critical moment in order to protect investors to whom he has sold securities. On one occasion two well known firms of investment bankers sold $1,500,000 worth of bonds and $1,750,000 of preferred stock of the Pine Hill Collieries Company. The corporation met with unanticipated reverses. The bankers, therefore, made the company a substantial loan and also advanced additional money as working capital. Later on, the bankers negotiated a deal whereby the Locust Mountain Coal Company, a strong corporation, through a purchase of a junior issue of bonds of the Pine Hill Collieries Company relieved the situation. In the course of the deal, the bankers took preferred stock in the Pine Hill Collieries Company for the money they had advanced to protect the security holders. The post-sale service in this instance was both extensive and successful.

That such efforts, however, sometimes fall short of success is evidenced by the troubles of the Indiana, Columbus, and Eastern Traction Company and numerous other electric roads which have defaulted as to interest or principal or both during the past decade. In such instances post-sale service by bankers may fail to right the situation because the root of the difficulty lies in changes in economic conditions rather than in inefficiency of operation. The

unparalleled increase in the use of the motor bus and the automobile has spelled disaster for many companies engaged in electric transportation. Once more the advantage of diversification of investments becomes apparent.

There are also situations in which the preliminary examination of the investment banker goes wrong not as the result of carelessness on the part of the investigating staff but because an officer or agent of the borrowing corporation has been guilty of actual misrepresentation and fraud. Such a condition of affairs developed in connection with the first mortgage 7 per cent bonds issued by the D. G. Dery Corporation of Allentown, Pennsylvania. All customary financial information was supplied by the Dery Corporation to the banking syndicate which brought out the bonds and was examined closely by a well-known firm of accountants and the physical properties appraised by a well known engineering corporation. The company appeared to be in a sound financial condition with assets and earnings sufficient to warrant the bond issue. The bonds were brought out in 1922. In 1923, after the first coupon was paid it was discovered that the working capital of the corporation was seriously impaired and a receivership resulted. The holders of the bonds were immediately notified by the originating houses that their interests would be looked after. The investment houses concerned immediately organized and proceeded to investigate the cause of the trouble. A re-examination of the D. G. Dery Corporation showed that financial facts had been misrepresented and falsified.

It was discovered that the dominant officer of the company had kept a double inventory, one in his pocket for his personal use and the other for the bankers' investigating staff. The accountants of the bankers had approved the conditions of the Dery Corporation on the basis of the erroneous statements supplied to them. Accordingly the bonds had been put out on the basis of false and misleading information, and disaster was inevitable. Upon ascertaining the fraudulent actions, the bankers immediately started proceedings against the officer involved accusing him of criminal fraud. This was comforting to his victims, but not helpful from the point of view of recovering the money lost through his behavior. At this point, however, the banking group afforded efficient post-sale service to the Dery Corporation investors. They determined to spare no efforts to salvage the situation, and hence they organized and supported a new company, the Amalgamated Silk Corporation, which took over the assets of the defunct Dery Corporation, assumed the bond issue, and proceeded

with the business. Meanwhile the bankers maintained a market for the bonds during the period of the difficulties. Among others, one firm in particular devoted a great deal of time and money to the successful solution of the problems involved. A member of that firm is now serving on the Board of the Amalgamated Silk Corporation. The bonds, which dropped as low as 55, rose in a relatively short period to 97½. Such a case affords an excellent illustration of conscientious and skillful post-sale service.

Every once in a while, the investment banker has to step in and revamp the whole business structure of a borrowing corporation. Such a necessity usually flows from undue optimism on the part of the controlling interest of the company concerned. Such a situation occurred in connection with the Murray Body Corporation, a concern building automobile bodies of a high grade. The banking syndicate put out $4,000,000 worth of 6½ per cent ten-year sinking fund gold bonds of this company in 1924. The Murray Body Corporation was originally incorporated under the laws of Michigan and had acquired all the properties of the C. R. Wilson Body Corporation, the Towson Body Company, and the J. C. Widman Company. The balance sheet of the Murray Body Corporation on September 30, 1924, showed its assets to be $16,274,119.45. Of this amount $9,255,815.62 represented lands, buildings, machinery, and equipment. Current liabilities amounted to $1,762,236.66, and reserve for contingencies $350,000. The $4,000,000 bond issue therefore appeared to be well secured. The combined net earnings of the companies acquired by the Murray Body Corporation were given as follows:

Year Ended Dec. 31	Net Earnings After Depreciation Available for Interest
1920	$2,106,657
1921	240,046
1922	1,484,062
1923	3,246,714
1924 (9 months ended September 30th)	1,566,149

For the nine months' period ending September 30, as above shown, the net earnings, figured on an annual rate basis, amounted to more than 7½ times the interest charges on the $4,000,000 bond issue. Eight months after September 30, 1924, the Company was in serious difficulty, and not unnaturally its creditors found its troubles hard

to understand. These troubles were caused partly by bad contracts and partly by conditions arising from the human element. The Murray Body Corporation had outstanding contracts with such well-known car manufacturers as Jewett, Lincoln, Marmon, Packard, Paige, Reo, and Willys-Knight, but these contracts had been cut so close through competition that they were unprofitable in the long run. Furthermore, one of the managing officers of the corporation was taken ill, and his absence, coupled with the unprofitable contracts above mentioned, precipitated disaster. A rapid shrinkage of earnings was the first thing that happened. This brought the investment bankers together to determine upon a future policy with regard to the company. A reorganization was decided upon and carried out. The Murray Body Corporation, upon the advice of the bankers, went into voluntary bankruptcy.

Meanwhile the bondholders were advised by the investment houses which had sold them the bonds that their holdings did not appear to be in serious danger. This was so, for the company's assets were far in excess of the amount of the bond issue, and even in a forced sale there would have been plenty of money to take care of these bonds. The reorganization plan adopted operated along the following lines: The preferred stockholders paid $35 per share and received ¾ of a share of new preferred and 1¼ shares of additional common stock. The common stockholders paid $10 per share and received ½ share of new common. Common stockholders failing to pay the $10 assessment received 1/15 of a share of new common. The bankers and merchandise creditors received 25 cents on the dollar on account of their advances and claims and took the balance of their claims in common stock. The result of this reorganization was that approximately $3,000,000 was raised by the methods above indicated. This was enough money to put the corporation on its feet, reduce its current liabilities, and give it sufficient working capital. Besides the financial readjustment, other important changes were made. The motor companies with whom the Murray Body Corporation had contracts prior to the bankruptcy, entered into new agreements of a more satisfactory and equitable nature. A member of the banking firm was placed on the Board of the Murray Body Corporation, and a new management was provided. The success of this reorganization is well represented by the swing of the market price of these bonds, which went as low as 85 and as a result of the reorganization rebounded to 99½, which was above the price they originally sold for.

The work of the bankers' syndicate in this instance represents an excellent type of post-sale service with thoroughly satisfactory results.

In many cases where a default actually occurs, the principal method employed by the investment bankers to reorganize the company and start it off again with a clean sheet is the protective committee. Originally an entirely informal group of interested bankers and creditors, the protective committee has now become a well-recognized institution of corporation finance in the United States. Courts of law are rarely presided over by business men, and the most learned judges welcome the expert assistance of bankers, brokers, business men, and corporation lawyers when a corporate reorganization has to be planned and executed. Frequently the work of a protective committee is successful and salvages bad situations. Sometimes, however, the most skilled efforts on the part of such a committee prove ineffectual. Such an instance was that of the attempted reorganization of the Richland Coal Company which defaulted in the spring of 1925. The company's business of mining bituminous coal was highly competitive, and it suffered from the high cost of labor and increased operating costs. On May 23, 1925, the banking syndicate, which had put out an issue of $1,200,000 worth of 6½ per cent first mortgage gold bonds for the company, notified the bondholders by circular letter that the company was in difficulties and would be unable to retire $60,000 worth of the bonds as provided in the mortgage. The result was the formation of a bondholders' protective committee. This committee arranged to borrow from the trustee enough money to meet the first interest payment, which otherwise would be defaulted. The loan was obtained on the collateral security of deposited bonds. It was hoped that this advance of interest would give the company a chance to get on its feet; but such was not the case, and on May 28, 1925, the company went into a receivership. Foreclosure proceedings were then attempted, but serious disagreements developed among the interested parties, the stockholders and general creditors opposing foreclosure. On November 30, 1926, the committee advised the bondholders that it would not advance any more money for the payment of interest. Up to the present time this matter has not been finally concluded. It is probably true that the post-sale service rendered in this case was just as good as such service usually is, for the bankers concerned were well-known men and the average of ability among the committee membership was high.

The economic situation would seem to have been too bad to lend itself to ready adjustment, and, in addition, the disagreement among the parties in interest formed another handicap to a satisfactory settlement. Once more we may perceive the uncertainty of even the most skillful post-sale service by the investment banker and the advantages of diversification of security. In the absence of any workable system by which financial disease can be diagnosed in time to enable the bondholders to be warned of the trouble and to give them a chance to dispose of their bonds, it would seem that post-sale service can only be relied upon in part to solve the problems of the average investor. Again it is evident that the main objectives of the investment trust offer a better solution than the existing method of operations.

In this country to-day the investment-banking system is primarily the leading channel for institutional and individual investments. That it has many virtues no properly informed person will deny, and it must also be admitted that the moral and intellectual average of American investment bankers has reached a high standard. Nevertheless, the shortcomings of the system are also patent to all. In the first place, as we have seen, the large metropolitan houses of issue originate a great majority of bond and stock offerings. The small investment banker, the man in touch with the public, often has little choice as to what he will sell; and the individual investor frequently has less choice as to what he will buy. Furthermore, the average investment banker must depend largely upon the big houses for the adequacy and efficiency of all preliminary investigations of investment propositions.

As to post-sale service, in illustration of which a number of concrete cases have been enumerated and explained, we must once more concede that much excellent service of this type has been rendered and in all probability will continue to be rendered to the investors of the United States; but does not such service exemplify the old saying that it is useless to lock the stable door after the horse has been stolen? At best, post-sale service is likely to be along the lines of reorganization and rehabilitation, financial and physical, and this usually means a scaling down of existing securities or at least a change in their character to the end that non-defaultable stock may be substituted for bonds and the burden of the reorganized company thereby lightened and its future prospects improved. Then, too, there is nearly always an urgent need for working capital in order that a reorganization may be made effective; and, in the last analysis,

who furnishes the new working capital? The answer is but too apparent. It is furnished by the people who are most anxious to see the company succeed in the future; and in numberless cases this means that the common stockholders, after being the hardest-hit group in the reorganization, are called upon at the end of the chapter to put up the new money with which the company is to re-enter business.

If post-sale service is to be efficient in large measure, and indeed if it is to become such a feature of the investment-banking system that the system itself will prove adequate for the protection of the individual investor, there should be developed another kind of service which operates from the moment the bonds are sold and prior to the discovery of serious financial disease on the part of the borrowing corporation. The investment banker should watch, from day to day, with whole-hearted concentration, the health of the companies whose bonds he has sold to the public; and as soon as he perceives any sure sign of coming trouble he should advise his clients and do all in his power to get them out of the investment before the crash and not afterwards. It is obvious that in many cases investment bankers cannot see their way clear to do this vitally important thing. There is much to be said on their side, and one may as well say it here and now.

A company may be in some trouble which is not serious but bad enough to cause concern. If the investing public is not alarmed, if the market is not disturbed, if, indeed, no one says anything about it, the company may recover. On the other hand, it may fail. What is the investment banker to do? Start a procession away from the company by notifying his clients to sell their bonds, or support the company and represent himself as hopeful and confident that it will recover until the day before the receiver is applied for? No attempt will be made to answer these pertinent questions; but the fact remains that unless they are answered an inherent weakness would seem to exist in the present investment-banking system of the United States, a weakness which cannot be cured by the application of the principles of the investment trust but which can be greatly mitigated thereby. Diversification of risk means that when a company goes to the wall a man loses less because he owns less of the company's securities; furthermore, expert management in the selection of securities by disinterested trust managers, not connected with any particular investment-banking firm, will give to the individual and institutional investor a type of security selection which he will not

obtain if he relies upon the advice of a banker or broker who is personally profiting by the sale of the security in question.

FEDERAL LAND BANKS AND JOINT-STOCK LAND BANKS

The similarity between these institutions and the investment trust lies, first, in the methods employed in acquiring working capital, and second, in the security offered the ultimate investor. Like the investment trust, these institutions issue their own bonds to the public in lieu of a variety of obligations which they themselves hold, thus giving the buying public the added security of their own endorsement plus the diversification of risk made possible by having the whole number of varied investments of the issuing institutions (here either the Federal land bank or the joint-stock land bank) as security for any one of the bonds which the investor has bought.

Inasmuch as the funds of the Federal land banks and joint-stock land banks can be invested only in long-term investments for agricultural purposes secured by first mortgages on farm land, the principle of diversification of risk is necessarily limited in application. This means that a larger measure of the security offered to the purchaser of the bonds must rest in the management of the issuing institution. Diversification, however, is present to a greater degree than would be possible were the purchaser of either Federal land-bank bonds or joint-stock land-bank bonds to invest directly in agricultural first mortgages; for instead of having his funds tied up in one farm, the purchaser of the bonds has his investment secured by a host of diverse mortgages placed in different regions, dependent upon the success of different crops for the payment of interest and principal, and serving different markets.

An additional feature which deserves mention at the outset is the fact that both the Federal land banks and the joint-stock land banks are creatures of the Government, and as such have its active and moral support, having been created to furnish agriculture with sorely needed long-term credits.

With the foregoing similarities in mind, a detailed examination of the Federal land banks and joint-stock land banks is made possible. This can best be accomplished by viewing the Federal Farm Loan System as a whole.

The Federal Farm Loan System was created to meet a widely recognized need of improving the long-term credit facilities at the disposal of agriculture. Prior to the passage of the Federal Farm

Loan Act in 1916, by virtue of which the Federal land banks and joint-stock land banks came into being, the farming interests of the country were greatly hampered in securing the necessary long-term funds. Maturities were usually too short to enable the repayment of the loan out of earnings; interest rates were high and uneven; and renewals costly and uncertain. Most of these difficulties arose from an inadequate lending mechanism. The capital of the lending institutions was too small, and their procedure and security were too little standardized. There was no real loan market with regard to long-term agricultural credit. Consequently, the uncertain conditions and restricted resources demanded a strict conservatism on the part of the lending institutions, inclining them to give preference to the well-to-do established farmer rather than to the tenant or new purchaser whose credit needs were the greater and more pressing.

It was to provide a stable and standard market for long-term agricultural credits that the Federal Farm Loan System was instituted. At the head of the System is the Federal Farm Loan Board, composed of seven members, six being appointed by the President with the consent of the Senate, and the seventh, the Secretary of the Treasury, acting as *ex-officio* chairman of the board. The Board is the administrative and regulative head of the System. It has the charter-granting power with reference to both Federal land banks and joint-stock land banks; requires periodic reports from these institutions; sets up the specifications thereof; appoints and supervises the work of the bank examiners and the appraisers of farm land; appoints the district registrars who hold the obligations which are the security for the bonds issued; and otherwise acts with reference to the system as a sort of trustee under a collateral trust agreement; interprets the legal provisions under which loans can be made; and, finally, passes upon the eligibility of loans as collateral for bond issues. This last-mentioned dual control is a great power in the hands of the Farm Loan Board and is similar to that exercised by the Federal Reserve Board through its ability to rule on paper eligible for rediscount.

In practice, the various banks of the System issue monthly statements, while quarterly statements are sent to the Board by the various national farm-loan associations organized under the Act.[4] The

[4]For a very thorough and detailed work for general reference regarding the organization and practice of these banks, see Willis and Steiner, "Federal Reserve Banking Practice," Appleton & Co., 1926.

Board conducts semi-annual examinations of the various banks and more frequent examinations of the farm-loan associations. It also maintains a division of statistics which compiles data for the use of the Board and of the banks in determining future policies.

With the Board as the head, the System unfolds itself in two directions: the Federal land banks and national farm-loan associations, which form the coöperative features of the system; and the joint-stock land banks, which constitute the private branch.

The Board has established twelve Federal land banks through which to carry out the coöperative phases of the scheme. These are situated in such a manner as to make the system available to the entire country and at the same time to assure each bank against the dangers of operating in a one-crop region. This feature lends to the business of the banks a certain element of diversification of risk, similar to that achieved by the investment trust through placing its funds in a variety of industries. This tendency is greater in the case of the Federal land banks than in that of the joint-stock land banks, insofar as the latter tend to operate in a more restricted territory.

Each Federal land bank is capitalized at $750,000, and any citizen corporation, the government of any State, or of the United States may subscribe to its stock, though privately owned stock is without voting power while stock held by the United States Government does not receive dividends. Purchase of stock by the various national farm-loan associations is compulsory, each member of the association being required to subscribe to the stock of the district Federal land bank an amount equal to 5 per cent of the loan which he wishes to obtain. Because of its lack of voting power and the uncertain rate of dividends, Federal land-bank stock has not been a popular investment. At the present time the larger proportion of the stock is in the hands of several thousand national farm-loan associations organized under the Act, most of the original Government participation having been retired.

Government participation in the management of the banks, however, continues to be active, it being believed that since the System is the creature of the Government, and the bonds issued by the banks in the system are instrumentalities of the Government, the Government, or at least the public interest, should always have the preponderant representation on the boards of the various banks. Accordingly the board of directors of a Federal bank is composed of three local directors, chosen by the national farm-loan associations and borrowers through agencies (persons who have borrowed designated

agents of the bank in localities where the organization of an association seemed either improbable or inadvisable); three district directors, representing the public interest and appointed by the Federal Farm Loan Board; and one director-at-large, also appointed by the Board. The board of directors chooses the officers of the bank and otherwise functions as does any similar body.

A feature which deserves mention at this point is the provision with regard to reserves. The law requires that 25 per cent of the net earnings of the bank shall be set aside to create a reserve fund until an amount equal to 20 per cent of the outstanding capital stock has been accumulated, after which 5 per cent of the annual net earnings shall be diverted into reserves. A suspense account for defaulted mortgages is also carried, and after two years defaults are debited to reserve.

The national farm-loan associations are the agencies through which the Federal land banks disseminate the funds which they have accumulated. A national farm-loan association may be formed by ten or more natural persons who are owners or about to become owners of farm land qualified as security for a mortgage loan against which bonds can be issued, and who desire to borrow at least $20,000 in the aggregate. The officers of the association consist of five directors, a president, vice-president, and secretary-treasurer. There is also a loan committee composed of three members who must approve of all applications for loans, before the board of directors of the association will recommend them to the Federal land bank of the district. The association endorses all loans made through its agency, and its members possess double liability with regard to the obligation of the association. The ultimate security behind the bonds issued by the Federal land banks thus rests in the double liability of the members of the various national farm-loan associations.

Loans are made for the following purposes: (1) to purchase land for agricultural purposes; (2) to purchase equipment, fertilizer, and livestock necessary to operate the mortgaged farm; and (3) to provide buildings and improve the land. Special provision has also been made for the use of proceeds for the liquidation of indebtedness incurred for agricultural purposes prior to January 1, 1922.

Application for a loan is made to the local national farm-loan association, or, where no association exists, to the designated agent of the Federal land banks. Upon receipt of the application the loan committee investigates the case, making a detailed written report giving their appraisal of the land, the character of the applicant,

and data regarding the neighborhood generally. If all three members of the committee are in favor of granting the application, the report is forwarded to the executive committee of the Federal land bank. Before granting any request for a loan, the bank refers the application to one or more land-bank appraisers who investigate and report upon the land. Following favorable action on the part of the bank's executive committee, the application and data are forwarded to the Federal Farm Loan Board which has final jurisdiction as to the eligibility of mortgages as security for the bonds issued by the banks. If the loan is granted a first mortgage on the land is executed, and the person receiving the loan subscribes to the stock of the district Federal land bank to the amount of 5 per cent of the loan.

Loans may vary from $100 to $25,000 and may be made up to 50 per cent of the appraised value of the land and 20 per cent of the permanent improvements thereon. In practice the loans fall somewhat short of this figure, usually running 40 per cent of the appraised value, which in turn is usually below the sale value. Very few loans are made up to the full amount allowed, Federal land banks granting preference to loans under $10,000 and the joint-stock land banks specializing in the larger loans. In making appraisals, two factors are considered chiefly: (1) agricultural productivity, and (2) salability and prevailing land prices. The latter is usually deemed secondary, though in the case of low-priced lands the sale price is considered an important factor. Where high-priced lands are involved, productivity becomes the principal test.[5] All land mortgaged must have adequate title insurance, and fire insurance equal to 60 per cent of the value of permanent structures.

Interest on loans usually ranges from 5½ to 6 per cent and is charged only upon the unpaid balance. Loans extend over a period of five to forty years, and a system of amortization payments is in operation.

The larger part of the funds used by the Federal land banks in granting long-term agricultural credits comes from the bonds which they issue under the provisions of the Act and with the approval of the Federal Farm Loan Board. These bonds are secured primarily by first mortgages on farm land, but may be temporarily secured by United States Government securities deposited with the district registrar, for which approved first mortgages can be substituted when they arise. Additional security is furnished the bonds

[5] Ibid., p. 311.

in that they are the obligations of the System as a whole, the various Federal land banks being responsible for any coupons of a defaulting bank presented over their counters and being assessed equally and ratably for any deficit which may remain after the liquidation of a defaulting bank. Summarizing what has been noted previously, the security of the Federal land banks is seen to lie, first, in the banks themselves; second, in the first mortgages of the various borrowers; and finally, in the endorsement of the national farm-loan associations and the double liability of their members. In addition to these legal safeguards, the operations of the banks (as has been mentioned before) make available the safety inherent in the application of diversification of risk.

Bonds are issued in denominations of $50, $100, $500, and $1000, the last denomination being the standard in practice. No issue can agregate less than $50,000, and most issues have been materially larger. Originally the issues were for a maximum duration of twenty years, redeemable after five years, though this has been changed to thirty years and ten years, respectively. No bank can issue bonds in excess of twenty times its paid-up capital and surplus, though this imposes no absolute limit, owing to the 5 per cent subscription to stock required with each loan.

The bonds are marketed primarily through a syndicate, though in 1923 the various Federal land banks established a fiscal agent in Washington in order to reduce the expense of distribution. The syndicate method is still largely adhered to, and the fiscal agent concerns himself mainly with the short-term intermediate credit-bank debentures which are sold in large blocks to various banks seeking a use for their surplus funds.[6] The Federal land-bank bonds have always been well received, particularly because they are instrumentalities of the Government and as such are tax exempt. The bonds are also lawful investments for all fiduciary or trust funds and may be accepted as security for public deposits. All member banks of the Federal Reserve System may buy and sell them, as may Federal Reserve Banks, subject to certain limitations.

Mention should be made of the influence which the Farm Loan Board and the banks exert in the development of sound technique in agriculture, by refusing to sanction loans unless certain conditions of management and cultivation are complied with. The entire system is soundly established and on a firm financial basis. Though it was hoped that further coöperative effort would be stimulated by

[6] Ibid., p. 267.

the establishment of the System, this has failed to follow, the individual's interest waning after the desired loan has been procured.

Joint-stock land banks are largely a result of the recommendation of the United States Commission, appointed in 1913, which was impressed by the excellent results achieved in Europe where both systems had been found. They are more closely akin to the investment trust than are the Federal land banks, in that they are institutions dependent largely upon private initiative and organized for private profit. The principle of diversification of risks, however, is more extensively present in the former banks than in the joint-stock land banks in that their operations are restricted by law to two contiguous States, while practice has further limited them to the better agricultural districts within the territory. This is due both to the dictates of sound business, and the fact that the joint-stock land banks possess a smaller capitalization and are more dependent upon themselves than are the Federal land banks.

A joint-stock land bank can be organized by no less than ten natural persons and must be capitalized at a minimum of $250,000, all of which must be paid in before the bank can begin issuing bonds. Provisions governing organization, directors, and like matters are similar to those of the Federal land banks, and both are governed by Section 4 of the Farm Loan Act. Exceptions exist, however, in that a joint-stock land bank may have no less than five directors and that directors thereof may hold similar positions in other banking institutions.

The loan operations of the joint-stock land banks are not as closely restricted as are those of the Federal land banks. The law does not require them to loan funds merely for agricultural purposes, though the provision that the Board shall review the eligibility of all loans to act as security for bond issues, and the policy of the Board with regard to this matter, have caused actual practice to conform closely to the activities of the farm-loan banks. Joint-stock land banks may lend up to $50,000, but at no time may the advances to any individual exceed 15 per cent of the bank's capital and surplus, a provision which holds for the entire system, no loan being made to any person who already has received the maximum amount through other units of the system.[7] Loans are also limited to $100 per acre. As a matter of practice, the joint-stock land banks tend to devote themselves to the larger loans, leaving the small ones

[7] Ibid., p. 324. This restriction is based largely upon the policy of the Board rather than direct statutory provision.

for their colleagues, the Federal land banks. As has been mentioned before, the tendency has been for the joint-stock land banks to concentrate in the better-developed farming areas, and further restrict themselves to the richer counties.

Loans are made largely through local bankers, and are closed through them. The local banker not only accompanies the application with a confidential report as to the borrower's capacity and trustworthiness, but also is responsible for identification of parties, payment of prior liens, and proper application of the proceeds. The local banker, unlike the agent of the Federal land bank, does not endorse the loan. Appraisal is made by the bank's own appraisers and verified by the Government appraiser, while the bank's appraisers reinspect the property every few years. Loans, as in the case of the Federal land banks, are restricted to 50 per cent of the appraised value of the land and 20 per cent of the value of the permanent improvements. The maximum interest rate on loans is 6 per cent, exclusive of amortization payments, and is not subject to review and alteration by the Board. All loans must be secured by first mortgages.

The joint-stock land banks raise the major portion of their working capital through bond issues, as do the Federal land banks. The issues are subject to the same restrictions and regulations as are those of the Federal land banks, with the exception that no joint-stock land bank may issue bonds in excess of fifteen times its capital and surplus. The maximum interest rate on bonds is 5½ per cent, though in actual practice this figure seldom has been reached, issues having ranged between 4½ and 5 per cent. The bonds of the joint-stock bank must be specifically designated as such in order that they may be distinguished from the Federal land-bank bonds. Like the latter, they are tax exempt.

From the foregoing discussion it will be noticed that though the joint-stock land banks are more closely akin to the investment trust in some respects than are the Federal land banks, they are somewhat more limited in the application of diversification of risk. This feature places a greater premium upon sound management, and the conservative practice of the banks seems to indicate that they have recognized this fact. At the present time the Federal land banks are doing the larger business, though since the establishment of the system the joint-stock land banks have experienced the more rapid growth. It is quite possible that at some date not far distant the joint-stock land banks will have an equal, if not a controlling rôle in the system.

HOLDING COMPANIES, PARTICULARLY THOSE IN THE PUBLIC-UTILITY FIELD

There has been a great deal of loose talk to the effect that holding companies are investment trusts. This is obviously not the case. The modern American holding company, which is far more prominent among public-utility corporations than elsewhere, is not formed for the primary purpose of dealing in investment securities. Its primary purpose is to achieve economy and thereby obtain increased returns on its invested capital. The method of obtaining economy is the acquisition of a group of subordinate corporations, but the primary purpose is to operate them efficiently and with great savings after they are once acquired.

It is true that many holding companies issue their own securities upon the basis of the securities of their subsidiaries, and it is also true that there is within the holding-company plan a limited degree of diversification and a good deal of expert management; hence it is not surprising that the casual observer should easily believe that these great corporations are essentially investment trusts. Undoubtedly they are forming a constantly increasing factor in American finance, but they are not investment trusts and only partially resemble the latter.

Take, for instance, Utilities Power and Light Corporation, which includes five groups of operating public-utility properties and supplies electric energy and gas in more than 400 cities and towns, including St. Louis, Indianapolis, and Dubuque. There is a great deal of inter-company ownership in such a situation—a major holding company and five minor holding companies. In each one of the five principal groups there are other smaller operating companies. In this way an investor in the securities put out by Utilities Power and Light Corporation, which is the parent holding company, does obtain considerable diversification of risk; but it should never be forgotten that the principle of selection employed in putting these groups together has not been that followed by the true investment trust, in which there is an altruistic desire to select the best securities of many underlying corporations for the benefit of the investing public *per se*. Here the guiding principle is far more selfish, although that does not mean that it is not wise and provident. Nevertheless, the controlling thought in the minds of those promoting Utilities Power and Light Corporation was undoubtedly one of pure business enterprise, and all along the line the selection of subsidiary corporations was

carried on in conformity with such a theory. It will therefore be readily understood that, while the American holding company is often an excellent investment device and does resemble an investment trust, there are certain distinctions which very clearly differentiate it both in principle and in operation.

AMERICAN MORTGAGE COMPANIES

Corporations of this class are well typified by such successful organizations as S. W. Straus & Company and the American Bond & Mortgage Company. They also resemble investment trusts to a limited extent but are not investment trusts in a true sense. Unlike the holding companies, they do not invest their money with the idea of operating the enterprises whose mortgages they acquire, although once in a while when a mortgagor gets into difficulties they are compelled to do so either directly or indirectly. It would also seem to be true that when selecting the underlying mortgages they do so with the idea of offering the public good diversified securities as collateral for their own stock and bond issues. In this they closely resemble the investment trust. They bear a closer resemblance, however, to the bankers' share companies than to the true investment-trust form. There is practically no element of management except in connection with the original selection of the underlying mortgages which are to collateral a specific issue of securities by the mortgage corporation; therefore, while nearer the investment-trust form than the holding company, they are not investment trusts.

MUTUAL SAVINGS BANKS

These institutions are closely analogous in principle to the investment trust, and their methods of operation are also quite similar. It should be realized immediately, by those who are inclined to look upon the investment trust as something novel, that for many years we have had, in our mutual savings banks and our insurance companies, institutions that are investment trusts in all but name; and it is encouraging to note that these great protective institutions have attracted primarily the savings of the small investor. For instance, Mutual Savings Bank Statistics, compiled by the National Association of Mutual Savings Banks as of January 1, 1927, shows that at that

time there were 604 mutual savings banks with total assets of $8,625,-739,816, representing a total number of 11,242,856 depositors. These figures show clearly how strongly entrenched these organizations are, and to what an extent they have attracted the savings of the American people.

We may better understand the way in which they are operated if we examine in some slight detail the two largest mutual savings banks of the City of Philadelphia, namely, the Western Saving Fund Society and the Philadelphia Saving Fund Society.

The Western Saving Fund Society of Philadelphia was incorporated in 1847 for the purpose of conducting a saving-fund business only. It has no stockholders, is entirely unselfish in its motives, and is operated and maintained solely for the benefit of its depositors and to encourage saving among the people. Since 1847 the deposits of the Society have grown to more than $54,800,000 and the number of depositors to more than 70,000. The business of the Society is directed by a Board of twenty-five managers who serve without compensation in managing the affairs of the institution. The officers and employees are paid appropriate salaries and perform their duties under the direction of the Board, but no manager, officer, or agent of the Society is allowed directly or indirectly to borrow any money or moneys from the Society.

The various committees of the Board of Managers make monthly and special examinations of the assets and business of the Society. The Banking Department of the State of Pennsylvania makes a personal examination of the Society once a year, and, in addition, the Society makes a report to the Banking Department every three months. This is particularly interesting because it would seem that as time goes on, if investment trusts are to assume a leading position in American finance, they must submit themselves to some definite kind of supervision or examination by State authority. In this connection we may observe that quite recently the Attorney-General of the State of New York addressed a questionnaire to investment trusts operating within that Commonwealth in an endeavor to elucidate their methods and the details of their financial condition. Such an action is a sign of the time, and eventually supervision must come.[8]

[8] The following interesting article by Edwin A. Denham, entitled "An Impending Investigation" appeared in Barron's Financial Magazine, in the issue of September 5, 1927, viz.:

Attorney-General Ottinger of New York is putting the finishing touches to a voluminous questionnaire, to be shortly submitted to more than one hundred

To return to the Western Saving Fund Society, three auditors are appointed by the Court each year to audit and settle the accounts

investment trusts whose securities have been "issued, negotiated, advertised or sold within or from the State of New York during the year last past." The questionnaire will be addressed to all American investment trusts whose issues of stocks, bonds, notes of certificates have so far been offered for public subscription.

Powers Conferred by the Martin Act.

Chapter 649 of the New York Laws of 1921, commonly known as the Martin Act, vests in the state attorney-general powers of the broadest description to compel corporations, common-law organizations, co-partnerships, joint-stock associations and, in fact, most forms of business enterprise, irrespective of where they are located or have their being, to choose between compliance with such requests or demands for information as the attorney-general may believe the public's interests require him to formulate, and withdrawal or refusal of the privilege of selling their securities within the borders of the state.

The geographical limitation to the powers of the attorney-general's office are not so important as would appear at first glance. Inquiries addressed to state authorities in other parts of the country have developed indications of a fairly general inclination and intention to base their own attitude, towards the issuers of investment trust securities offered for sale in the respective states, upon the ultimate findings resulting from the far-reaching investigation undertaken in New York; and it may be said without over-much exaggeration, that investment trust securities which fail to measure up to the requirements of New York's attorney-general are likely to find the going hard in other sections of the United States.

Attorney-General Ottinger and Deputy-General Keyes Winter, head of the Securities Bureau in New York City, have been and are making every effort to confine the impending questionnaire to matters essential to the purposes of the investigation, but the scope of the inquiry has steadily broadened during the preparatory period, requests for information on quite a number of new points have been added or taken under consideration within the past few days, and the questionnaire in its final form will unavoidably throw a heavy burden of work on the staffs and the auditors of those investment trusts which undertake fully to comply with the official demands.

A Spirit of Co-operation

The leading investment trusts of the country have, however, given every indication of a desire to co-operate with the attorney-general's office to the fullest extent—partly, it is to be assumed, because they realize the investment-trust situation calls for some measure of control and a general "cleaning up"; partly because, as they put it, they themselves have nothing they wish to conceal from official scrutiny; and partly because it will require the hearty co-operation of the trusts in general if the investigation is not to drag itself out over a long period of time, with accompanying restlessness on the part of holders of invest-

of the Society, and private auditors also make periodical examinations of the books and assets under the supervision of the Board of Managers. It is also stated in the Eighteenth Annual Statement of this Corporation from which the above facts have been taken that all investments are made by officers of the Society under the supervision

ment-trust securities and some degree of natural hesitancy or suspended judgment on the part of prospective investors.

The Proposed Questions

In view of the fact that several points of considerable moment, suggested for inclusion in the questionnaire, are still under consideration by Mr. Ottinger, textual quotation of the lengthy document in its present unfinished form might easily prove misleading. Some of the questions and demands, already adopted or under consideration, may, however, and with reservations be briefly paraphrased and summarized as follows:

1. Supply a complete set of all "sales literature"—prospectuses, advertisements, circular letters, etc.—issued or authorized during the past year.
2. List of shareholders holding over 5 per cent of outstanding common stock, in case the trust is a corporation.
3. Trust Indenture or Agreement, if any, with amendments thereto.
4. Charter and By Laws, if any, and amendments thereto.
5. Articles of Association, if any, and amendments thereof.
6. Names and addresses of all officials and of all organizers or promoters.

Special Remunerations to Officers

7. Tangible and intangible remuneration or considerations received by all officials, organizers or promoters, for services or otherwise.
8. Copies of all contracts with brokers, dealers, fiscal agents, etc., connected in any way with the sale of the trust's securities.
9. Full details of any agreements or understandings with such brokers, etc., which may not have been reduced to writing.
10. Full details of any agreement conveying to any banking institution or other trustee any consideration not set forth in the Trust Indenture or Agreement.
11. Statement as to reserves set up, if any, to cover statutory liabilities of trustee.
12. Investment restrictions, in detail.
13. Certified list of all securities comprising the trust's portfolio, with names of underwriters, cost price of each security, present market value of each security, and where listed or dealt in.

As to Buying on Margin and Short Sales

14. State whether right is reserved to purchase securities on margin or to sell securities "short."
15. State whether securities are carried in balance sheets consistently at cost price or consistently at market value.

Appraisal of Securities

16. State method by which market value of securities is determined.
17. Name of any independent auditor who regularly audits the transactions in securities.
18. Who is responsible for the selection of securities to be purchased or sold?

of an Investment Committee and that the first thought in making investments is that the principal shall be absolutely safe at all times. With this safety assured the Society looks for a reasonable return on

19. Who is responsible for substitutions in the portfolio?
20. State amount of initial capital and in what form it was represented.
21. State increases in capital or assets—with dates, amount of each increase and source of such increase.
22. Give the names of any officials or of any other persons accountable for the the selection of securities to be purchased, who may have a direct or indirect interest in any corporation or concern issuing such securities or offering them for sale, stating what such interest is and the corporation or concern in which said interest lies.
23. What proportion of earnings or income, from dividends, interest or realized profits on securities resold, has been disbursed to the trust's stockholders (etc.) in the form of regular dividends or interest payments or in the form of extraordinary bonuses, extra dividends, etc.?
24. As of the date of your return, what is the differential between the cost of the securities placed in the trust's portfolio and the current sale price of the trust's certificates and other issues to the public?

A Thorough Inquiry

There is more of it, of course—questions concerning the history of the trusts, requests for balance sheets and profit and loss statements, and other less obvious inquiries and requests submitted for the purpose of getting a definite line on the inside and outside workings of each of the trusts addressed—but enough has been said to give the reader a fairly clear idea of the thoroughness and care with which the attorney-general's office is laying the groundwork for an investigation which promises to prove of nation-wide importance.

There is no intimation on the part of Mr. Ottinger or his office that the inquiry has been undertaken as the result of complaints received from disillusioned or dissatisfied investors in the securities of any particular trusts. The investment-trust industry is relatively new in this country. Most of the trusts which are old enough to have made any showing at all have been at least reasonably successful, so far, and some of them have been conspicuously so and have been able to dig in and to entrench themselves behind a barrier of imposing reserves accumulated against possible future losses or a falling-off in earnings.

There has, in fact, been little cause for official bodies or the general public to view with alarm the rapid growth and spread of the American investment-trust movement, taking it as a whole. But to those of us who spend their days in delving into the mysteries and intricacies of investment-trust literature and formations—and into the occasionally still greater mysteries and intricacies of the minds of investment-trust promoters—the necessity of some degree of control, of some accepted standard of investment-trust ethics and procedure, has been increasingly apparent; and Mr. Ottinger deserves considerable commendation for plunging into a self-imposed and decidedly arduous task without waiting for the development of the impetus which usually brings official investigations into being, and for his well-planned attempt to lock some of the unlatched investment-trust doors, here and there throughout the country, before any conspicuous number of horses can be stolen.

the money invested. With this summary of the Society's methods, let us examine the most recent financial statement:

STATEMENT 1st JANUARY, 1927

Par Value	Assets	As Charged
$7,381,000.00	United States Government Bonds	$7,363,540.82
5,598,000.00	State, County and Municipal Bonds	5,591,062.50
24,147,200.00	Railroad Bonds	23,176,454.42
15,554,000.00	Railroad Equipment Certificates	15,350,086.94
400,000.00	Street Railway Bonds	396,230.82
1,367,400.00	Miscellaneous Securities	1,293,426.25
4,857,301.00	Real Estate Mortgages	4,851,348.41
9,306.64	Call Loans	9,306.64
612,812.50	Real Estate	612,812.50
2,785,020.81	Cash	2,785,020.81
$62,712,040.95		$61,429,290.11

LIABILITIES

Due to Depositors, 1st January, 1927	$54,808,279.88
Surplus	6,621,010.23
	$61,429,290.11

The Society also holds for 4734 depositors U. S. of America Liberty Loan Bonds and War Savings Certificates, deposited severally by them for safekeeping, of which the par value is $1,257,800,000.

From the foregoing statement it will be observed that there would seem to be good diversification as to type of industry and, to a lesser degree, diversification as to type of security. An itemized list of the various holdings, which space does not permit to be given in this study, also shows extensive geographical diversification. We may therefore perceive that a mutual savings bank of this type deliberately attains the two fundamental objectives of the pure investment trust—expert and altruistic management and wide diversification of risk.

There is no need, in view of the explanation which has just been made regarding the Western Saving Fund Society, to go into detail concerning its sister institution, the Philadelphia Saving Fund Society, an older and larger institution but one conducted along precisely the same lines. A summary of the auditors' statement as of January 21, 1926, reads as follows:

ASSETS

Public and Railroad Loans as charged above, accrued interest not included	$169,334,053.79
Collateral Loans secured by Mortgage, accrued interest not included	370,000.00
Temporary Loans, accrued interest not included	1,065.00
Bonds and Mortgages, accrued interest not included	40,002,549.28
Real Estate	3,472,915.21
Suspense Account	134.59
Cash	12,128,177.45
	$225,308,895.30

LIABILITIES

Due Depositors (288,100)	$209,976,114.52
Surplus or Contingent Fund	14,482,780.78
Mortgage	850,000.00
	$225,308,895.30

Depositors' United States Loans Account	Assets	Liabilities
United States Bonds	$6,274,800.00	
On Deposit		$6,274,800.00

It may be noted that both of these societies have considerably larger amounts of money invested in bonds than in real estate mortgages. This is interesting because it is a situation which might conceivably change in the future, and the possession of free power to make such a change when conditions call for it is a distinctive characteristic of the true investment trust.

LIFE INSURANCE COMPANIES

Another type of institution closely akin to the investment trust is the life insurance company. It is not quite so closely analogous as the mutual savings bank, because it has the primary purpose of affording protection against the event of death. While this involves the accumulation of a savings fund, it also makes necessary the employment of certain actuarial methods of determination which would not be required in connection with a true investment trust. However, in principle and in the methods by which its funds are managed, the typical life insurance company is an investment trust.

With this in mind the author has tabulated the most pertinent statistics of five leading insurance companies of the State of New York, and in doing so has availed himself of the official records of the New York State Insurance Department.[9] The result is the following table:

[9] Reports Superintendent of Insurance, New York, 1921 to 1926, inclusive.

TABLE XVII

Distribution of Investments of Life Insurance Companies

	Metropolitan Life Insurance Company, New York				
	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25
Total admitted assets	$1,115,583,024.54	$1,259,850,325.23	$1,431,399,418.27	$1,628,174,348.20	$1,854,657,482.42
Total real estate	28,278,013.67	27,465,003.68	29,558,531.57	27,710,363.10	26,804,384.21
Mortgage loans—farms	84,160,093.38	107,251,832.78	142,344,374.97	161,834,405.12	176,344,523.82
Mortgage loans—other properties	370,357,905.15	402,865,431.88	463,578,039.09	547,702,101.01	644,305,027.11
Total mortgage loans	454,517,998.53	510,117,264.66	605,922,414.06	709,536,506.13	820,649,550.93
Total policy loans and premium notes	75,176,200.71	87,461,274.88	99,535,601.42	114,676,260.16	134,725,072.82
Total cash	10,944,318.69	16,264,724.10	16,961,789.85	15,763,687.38	14,208,684.02
Bonds—government—United States	115,029,235.40	118,720,776.11	102,184,473.74	100,269,210.40	102,977,451.53
Bonds—government—Canada	34,696,795.61	38,731,433.11	43,644,232.29	43,966,276.59	47,140,706.22
Bonds—government—other countries	.....	.....	.....	.....	.....
Total	149,726,031.01	157,452,209.22	145,828,706.03	144,235,486.99	150,118,157.75
Bonds—states, territories, possessions—United States	3,396,610.14	1,447,684.65	1,417,684.65	1,397,684.65	1,377,684.65
Bonds—States, territories, possessions—Canada	6,760,061.22	16,829,733.30	19,301,057.15	21,344,613.00	22,721,379.09
Bonds—states, territories, possessions—other countries	.....	.....	.....	1,352.00	.....
Total	10,156,671.36	18,277,417.95	20,718,741.80	22,743,649.65	24,099,063.74
Bonds—political subd. of states, terr., poss.—United States	30,482,581.23	19,025,018.43	20,273,746.67	20,412,185.60	28,606,346.70
Bonds—political subd. of states, terr., poss.—Canada	11,012,537.82	11,797,912.25	12,002,987.67	15,407,088.09	16,441,838.75
Bonds—political subd. of states, terr., poss.—other countries	2,392.00	2,392.00	2,392.00	.....	.....
Total	41,497,511.05	30,825,322.68	32,279,126.34	35,819,273.69	45,048,185.45
Bonds—railroad—United States	242,551,202.86	285,321,797.35	327,818,284.88	355,346,789.46	408,309,126.18
Bonds—railroad—Canada	3,252,788.17	3,257,000.17	3,697,816.51	3,092,554.51	3,011,774.61
Bonds—railroad—other countries	.....	.....	.....	.....	.....
Total	245,803,991.03	288,578,797.52	331,516,101.39	358,439,343.97	411,320,900.79
Bonds—public utilities—United States	.....	.....	.....	93,956,345.68	117,159,001.60
Bonds—public utilities—Canada	.....	.....	.....	500,000.00	2,569,470.86
Bonds—public utilities—other countries	.....	.....	.....	.....	.....
Total	.....	.....	.....	94,456,345.68	119,728,472.46
Bonds—industrial and miscellaneous—United States	48,625,350.56	58,017,973.51	70,884,582.78	17,026,140.35	16,373,444.67
Bonds—industrial and miscellaneous—Canada	1,423,042.50	9,700,000.00	11,440,000.00	13,469,076.80	12,998,156.00
Bonds—industrial and miscellaneous—other countries	.....	.....	.....	.....	.....
Total	50,048,393.06	67,717,973.51	82,324,582.78	30,495,217.15	29,371,600.67
Total bonds	497,232,597.51	562,851,720.88	612,667,258.34	686,189,317.13	779,686,380.89
Notes	.....	.....	.....	.....	.....
Stocks—railroad—United States	4,496,271.63	4,244,781.51	3,488,570.01	2,849,699.02	2,211,379.02
Stocks—railroad—other countries	.....	.....	.....	.....	.....
Total	.....	.....	.....	.....	.....
Stocks—public utilities—United States	.....	.....	.....	653,570.99	700,445.99
Stocks—public utilities—other countries	.....	.....	.....	.....	.....
Total	.....	.....	.....	.....	.....
Stocks—banks, trust and financial—United States	1,058,439.35	954,144.93	526,742.61	526,742.61	526,742.61
Stocks—banks, trust and financial—other countries	.....	.....	.....	.....	.....
Total	.....	.....	.....	.....	.....
Stocks—industrial and miscellaneous—United States	497,458.00	308,233.00	300,233.00	277,400.00	277,400.00
Stocks—industrial and miscellaneous—Canada	.....	.....	.....	.....	.....
Total	.....	.....	.....	.....	.....
Total stocks	6,052,168.98	5,507,159.44	4,315,545.62	4,307,412.62	3,715,967.62
Total (cost) bonds and stocks	503,284,766.49	568,358,880.32	616,982,803.96	690,496,729.75	783,402,348.48
Carried in balance sheet at	502,333,461.38	570,576,077.81	618,183,327.86	694,029,565.74	787,052,504.04
	A	B	A	B	B

Note—All figures for securities are shown at *actual cost*. Carried in balance sheet as A = Amortized value; B = Book value. M = Market value.
Statistics taken from the Reports of Superintendent of Insurance, New York, 1922–1926.

TABLE XVII—*Continued*

	Prudential Insurance Company of America, New Jersey				
	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25
Total admitted assets	$789,508,223.78	$906,397,224.67	$1,039,412,822.86	$1,196,348,261.09	$1,373,110,037.78
Total real estate	15,678,238.17	15,590,521.18	15,300,009.17	14,656,189.46	17,288,586.96
Mortgage loans—farms	141,818,478.53	156,632,670.41	178,953,398.97	196,465,554.01	203,293,134.01
Mortgage loans—other properties	116,913,672.28	168,639,705.94	230,854,372.37	309,271,803.59	419,321,917.20
Total mortgage loans	258,732,150.81	325,272,376.35	409,807,771.34	505,737,357.60	622,615,051.21
Total policy loans and premium notes	54,167,647.76	61,475,521.82	68,425,211.46	76,640,719.68	87,237,090.69
Total cash	13,385,313.48	14,826,018.54	11,144,095.14	10,240,733.84	10,832,798.86
Bonds—government—United States	106,833,195.98	104,423,258.38	104,171,814.97	98,526,189.97	98,526,189.97
Bonds—government—Canada	12,639,085.46	14,818,104.49	16,247,122.65	18,401,250.61	20,925,075.61
Bonds—government—other countries					
Total	119,472,281.44	119,241,362.87	120,418,937.62	116,927,440.58	119,451,265.58
Bonds—states, territories, possessions—United States	5,703,250.85	5,703,250.85	6,199,500.85	6,189,500.85	6,179,500.85
Bonds—States, territories, possessions—Canada	2,143,100.00	2,806,350.00	4,091,725.00	5,159,355.00	6,531,481.83
Bonds—states, territories, possessions—other countries					
Total	7,846,350.85	8,509,600.85	10,291,225.85	11,348,855.85	12,710,982.68
Bonds—political subd. of states, terr., poss.—United States	30,797,735.39	33,160,373.08	32,881,057.08	32,794,020.78	32,819,970.58
Bonds—political subd. of states, terr., poss.—Canada	2,799,502.40	2,636,377.35	3,609,399.00	5,351,241.75	6,275,479.67
Bonds—political subd. of states, terr., poss.—other countries					
Total	33,597,237.79	35,796,750.43	36,490,456.08	38,145,262.53	39,095,450.25
Bonds—railroad—United States	208,171,597.18	224,612,195.41	242,290,015.14	257,211,239.80	266,083,563.33
Bonds—railroad—Canada	49,500.00	49,500.00	49,500.00	49,500.00	2,138,727.50
Bonds—railroad—other countries					
Total	208,221,097.18	224,661,695.41	242,339,515.14	257,260,739.80	268,222,290.93
Bonds—public utilities—United States				98,278,595.82	120,466,639.18
Bonds—public utilities—Canada					
Bonds—public utilities—other countries					
Total					
Bonds—industrial and miscellaneous—United States	51,027,540.91	71,614,963.82	88,874,584.45	24,307,272.27	28,268,681.40
Bonds—industrial and miscellaneous—Canada					
Bonds—industrial and miscellaneous—other countries					
Total					
Total bonds	420,164,508.17	459,824,373.38	498,414,719.14	546,268,166.85	588,215,309.92
Notes				2,032,607.87	2,032,697.87
Stocks—railroad—United States	1,194,609.20	602,000.00	630,270.00	339,500.00	339,500.00
Stocks—railroad—other countries					
Total					
Stocks—public utilities—United States					
Stocks—public utilities—other countries					
Total					
Stocks—banks, trust and financial—United States	2,510,971.17				
Stocks—banks, trust and financial—other countries					
Total					
Stocks—industrial and miscellaneous—United States					
Stocks—industrial and miscellaneous—Canada					
Total					
Total stocks	3,705,580.37	602,000.00	630,270.00	339,500.00	339,500.00
Total (cost) bonds and stocks	423,870,088.54	460,426,373.38	499,044,989.14	548,640,274.72	590,587,417.79
Carried in balance sheet at	423,983,333.41	459,832,514.54	500,212,045.27	549,431,818.71	590,541,830.20
	B	A	B	A	A

NOTE—All figures for securities are shown at *actual cost*. Carried in balance sheet as A = Amortized value; B = Book Value. M = Market value.
Statistics taken from the Reports of Superintendent of Insurance, New York, 1922–1926.

TABLE XVII—*Continued*

	New York Life Insurance Company, New York				
	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25
Total admitted assets	$952,632,138.80	$988,552,210.96	$1,003,773,762.46	$1,055,896,210.42	$1,149,471,556.02
Total real estate	8,362,881.00	8,238,684.28	7,774,440.00	7,314,032.75	8,138,938.97
Mortgage loans—farms	52,313,916.54	57,592,277.53	66,239,961.23	68,143,085.50	59,765,525.60
Mortgage loans—other properties	131,408,889.38	143,070,999.93	189,255,218.65	230,422,054.50	293,861,676.82
Total mortgage loans	183,722,805.92	200,663,277.46	255,495,179.88	298,565,140.00	353,627,202.42
Total policy loans and premium notes	164,305,141.17	97,480,904.73	166,267,471.04	168,308,446.91	179,465,848.35
Total cash	10,238,378.85	6,181,901.48	6,835,903.11	5,693,951.38	4,606,252.17
Bonds—government—United States	118,863,150.02	113,588,823.33	92,282,694.95	81,694,643.06	58,226,215.73
Bonds—government—Canada	15,097,673.82	21,461,010.14	18,403,370.48	15,145,070.09	15,145,070.09
Bonds—government—other countries	55,025,826.04	48,848,961.49	40,352,005.41	21,757,121.08	16,174,053.52
Total	188,986,649.88	183,898,794.96	151,038,070.84	118,596,834.23	89,545,339.34
Bonds—states, territories, possessions—United States	9,572,578.66	8,600,940.61	8,444,494.68	8,474,126.12	9,113,672.65
Bonds—States, territories, possessions—Canada	3,203,832.31	5,260,708.41	4,824,158.97	4,167,114.29	3,542,725.00
Bonds—states, territories, possessions—other countries	6,336,533.75	6,122,754.30			
Total	19,112,944.72	19,984,403.32	13,268,653.65	12,641,240.41	12,656,397.65
Bonds—political subd. of states, terr., poss.—United States	62,847,537.98	59,293,900.19	53,826,329.01	52,474,560.44	48,807,084.55
Bonds—political subd. of states, terr., poss.—Canada	8,114,696.92	5,456,118.23	5,908,320.40	5,857,852.25	5,354,042.52
Bonds—political subd. of states, terr., poss.—other countries	3,047,563.37	252,203.61	251,300.09	250,125.52	18,341.37
Total	74,009,798.27	65,002,222.03	59,985,949.50	58,582,538.21	54,179,468.44
Bonds—railroad—United States	316,072,314.28	312,419,018.98	322,648,599.68	329,794,048.94	345,917,329.72
Bonds—railroad—Canada	3,659,751.79	3,110,129.96	3,096,060.26	3,096,060.26	3,096,060.26
Bonds—railroad—other countries	9,769,790.71	8,955,044.94	292,093.75	292,093.75	292,093.75
Total	329,501,856.78	324,484,193.88	326,036,753.69	333,182,202.95	349,305,483.73
Bonds—public utilities—United States				44,770,596.07	78,996,683.15
Bonds—public utilities—Canada					
Bonds—public utilities—other countries					
Total					
Bonds—industrial and miscellaneous—United States	7,929,024.54	22,813,016.71	31,947,585.67		
Bonds—industrial and miscellaneous—Canada					
Bonds—industrial and miscellaneous—other countries					
Total					
Total bonds	619,540,274.19	616,182,630.90	582,277,013.35	567,773,411.87	584,683,372.31
Notes					
Stocks—railroad—United States	335,717.50	92,745.00	92,745.00	92,745.00	14,465.00
Stocks—railroad—other countries					
Total					
Stocks—public utilities—United States				248,437.50	187,500.00
Stocks—public utilities—other countries					
Total					
Stocks—banks, trust and financial—United States					
Stocks—banks, trust and financial—other countries					
Total					
Stocks—industrial and miscellaneous—United States		279,437.50	279,437.50	31,000.00	31,000.00
Stocks—industrial and miscellaneous—Canada					
Total					
Total stocks	335,717.50	372,182.50	372,182.50	372,182.50	232,965.00
Total (cost) bonds and stocks	619,875,991.69	616,554,813.40	582,649,195.85	568,145,594.37	584,916,337.31
Carried in balance sheet at	554,918,323.57	573,997,425.95	535,801,872.30	540,668,609.38	563,807,856.13
	M	M	M	M	M

NOTE—All figures for securities are shown at *actual cost*. Carried in balance sheet as A = Amortized value; B = Book value; M = Market value.
Statistics taken from the Reports of Superintendent of Insurance, New York, 1922–1926.

TABLE XVII—*Continued*

	Equitable Life Assurance Society, New York				
	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25
Total admitted assets	$655,301,018.34	$663,747,064.32	$686,944.357.27	$725,611,955.71	$792,405,106.54
Total real estate	14,492,288.27	13,905,711.14	13,403,568.89	20,926,905.74	21,541,840.29
Mortgage loans—farms	52,725,368.04	63,012,180.00	98,195,070.39	126,218,711.31	142,046,708.70
Mortgage loans—other properties	101,307,661.47	107,155,156.85	106,554,202.39	110,101,420.68	136,295,446.42
Total mortgage loans	154,033,029.51	170,167,336.85	204,749,272.78	236,320,131.99	278,342,155.12
Total policy loans and premium notes	99,136,493.36	96,652,995.71	96,963,132,18	99,692,324.50	107,076,504.33
Total cash	5,612,111.92	7,182,533.95	5,795,923.38	4,574,025.16	3,724,155.81
Bonds—government—United States	75,293,570.02	69,862,522.13	68,327,305.00	43,498,445.00	36,618,153.00
Bonds—government—Canada	2,982,434.00	2,982,434.00	2,982,434.00	2,377,478.00	2,377,478.00
Bonds—government—other countries	15,444,124.00	15,175,312.00	9,538,035.00	9,375,226.00	7,383,103.00
Total	93,720,128.02	88,020,268.13	80,847,774.00	55,251,149.00	46,378,734.00
Bonds—states, territories, possessions—United States	1,678,619.00	1,136,625.00	1,019,400.00	1,019,400.00	.....
Bonds—States, territories, possessions—Canada	5,221,259.00	5,212,509.00	4,808,121.00	2,399,603.00	2,399,603.00
Bonds—states, territories, possessions—other countries					
Total	6,899,878.00	6,349,134.00	5,827,521.00	3,419,003.00	.....
Bonds—political subd. of states, terr., poss.—United States	15,774,417.00	13,369,583.00	2,951,404.00	1,824,979.00	637,117,00
Bonds—political subd. of states, terr., poss.—Canada	5,525,337.00	4,936,700.00	3,900,914.00	2,273,990.00	2,247,746.00
Bonds—political subd. of states, terr., poss.—other countries	960,607.00	951,143.00	951,143.00	951,143.00	951,143.00
Total	22,260,361.00	19,257,426.00	7,803,461.00	5,050,112.00	3,836,006.00
Bonds—railroad—United States	221,083,281.00	225,739,524.00	226,057,747.00	217,828,433.00	220,733,794.00
Bonds—railroad—Canada	1,089,000.00	135,015.00	100,812.00	392,618.00	96,988.00
Bonds—railroad—other countries	2,505,602.00	2,504,174.00	2,491,166.00	2,451,029.00	2,428,030.00
Total	224,677,883.00	228,378,713.00	228,649,725.00	220,672,080.00	223,258,812.00
Bonds—public utilities—United States	.....	.....	.....	49,637,125.00	70,935,585.00
Bonds—public utilities—Canada					
Bonds—public utilities—other countries					
Total					
Bonds—industrial and miscellaneous—United States	5,551,296.00	13,492,626.00	19,671,234.00	4,551,179.00	4,503,116.00
Bonds—industrial and miscellaneous—Canada					
Bonds—industrial and miscellaneous—other countries					
Total					
Total bonds	353,109,546.02	355,498,167.13	342,799,715.00	338,580,648.00	351,311,856.00
Notes					
Stocks—railroad—United States	11,986,132.00	8,783,400.00	8,731,433.00	4,413,422.00	3,773,406.00
Stocks—railroad—other countries					
Total					
Stocks—public utilities—United States	.....	.....	.....	4,296,584.00	4,296,584.00
Stocks—public utilities—other countries					
Total					
Stocks—banks, trust and financial—United States	4,784,191.00	205,164.00	205,164.00	205,164.00	205,164.00
Stocks—banks, trust and financial—other countries					
Total					
Stocks—industrial and miscellaneous—United States	872,962.00	.....	.....	.....	242,000.00
Stocks—industrial and miscellaneous—Canada					
Total					
Total stocks	17,643,285.00	8,988,564.00	8,936,597.00	8,915,170.00	8,517,154.00
Total (cost) bonds and stocks	370,752,831.02	364,486,731.13	351,736,312.00	347,495,818.00	359,829,010.00
Carried in balance sheet at	360,244,484.62	355,045,132.82	342,795,698.48	338,967,330.39	350,723,933.00
	A	A	A	A	B

NOTE—All figures for securities are shown at *actual cost*. Carried in balance sheet as A = Amortized value. B = Book value. M = Market value.
Statistics taken from the Reports of Superintendent of Insurance, New York, 1922–1926.

TABLE XVII—*Continued*

	Mutual Life Insurance Company, New York				
	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25
Total admitted assets	$677,505,499.27	$691,125,635.43	$695,748,508.39	$714,063,793.06	$746,144,170.08
Total real estate	11,706,467.68	12,038,217.68	11,847,577.68	10,829,592.14	10,129,582.14
Mortgage loans—farms	46,350.00	40,700.00	30,100.00	24,900.00	19,150.00
Mortgage loans—other properties	111,714,515.78	117,408,226.00	124,527,180.10	136,789,160.84	156,383,587.50
Total mortgage loans	111,760,865.78	117,448,926.00	124,557,280.10	136,814,060.84	156,402,737.50
Total policy loans and premium notes	96,750,337.11	97,480,904.73	95,864,240.81	95,212,736.29	97,806,190.10
Total cash	6,684,497.22	6,181,901.48	4,850,734.22	4,912,726.86	7,857,419.05
Bonds—government—United States	92,050,171.46	104,687,998.25	93,352,259.98	86,648,320.83	85,148,320.83
Bonds—government—Canada	749,900.00	749,900.00	749,900.00	749,900.00	749,900.00
Bonds—government—other countries	13,150,543.29	13,883,466.49	11,111,840.65	10,655,901.22	10,354,951.11
Total	105,950,614.75	119,321,364.74	105,214,000.63	98,054,122.05	96,253,171.94
Bonds—states, territories, possessions—United States	3,559,996.69	3,559,996.69	4,331,900.79	4,331,900.79	3,853,727.85
Bonds—States, territories, possessions—Canada	376,467.50	376,467.50	376,467.50	376,467.50	376,467.50
Bonds—states, territories, possessions—other countries					
Total	3,936,464.19	3,936,464.19	4,708,368.29	4,708,368.29	4,230,195.35
Bonds—political subd. of states, terr., poss.—United States	10,276,822.34	10,577,328.39	10,221,576.13	9,897,792.63	9,686,531.07
Bonds—political subd. of states, terr., poss.—Canada	1,231,232.50	1,231,232.60	1,331,232.50	1,231,232.50	1,022,732.50
Bonds—political subd. of states, terr., poss.—other countries					
Total	11,508,054.84	11,808,560.99	11,552,808.63	11,129,025.13	10,709,263.57
Bonds—railroad—United States	286,594,363.57	286,654,812.26	302,193,649.40	314,440,672.62	321,922,422.74
Bonds—railroad—Canada	2,242,195.54	2,242,195.54	2,242,195.54	2,242,195.54	2,242,195.54
Bonds—railroad—other countries					
Total	288,836,559.11	288,897,007.80	304,435,844.94	316,682,868.16	324,164,618.28
Bonds—public utilities—United States				10,487,944.54	14,522,039.83
Bonds—public utilities—Canada					
Bonds—public utilities—other countries					
Total					
Bonds—industrial and miscellaneous—United States	18,014,612.46	17,098,345.89	16,071,175.81	7,598,787.53	7,839,120.60
Bonds—industrial and miscellaneous—Canada					
Bonds—industrial and miscellaneous—other countries					
Total					
Total bonds	428,246,305.35	441,061,743.61	441,982,198.30	448,661,115.70	457,718,409.57
Notes					
Stocks—railroad—United States	11,990,792.81	11,854,058.63	11,438,634.13	9,527,613.61	8,501,973.53
Stocks—railroad—other countries					
Total					
Stocks—public utilities—United States				324,616.58	170,850.05
Stocks—public utilities—other countries					
Total					
Stocks—banks, trust and financial—United States	4,620,723.84	1,003,752.05	618,809.00		
Stocks—banks, trust and financial—other countries					
Total					
Stocks—industrial and miscellaneous—United States	3,350,946.85	1,465,643.52	1,452,168.52	599,000.00	
Stocks—industrial and miscellaneous—Canada					
Total					
Total stocks	19,962,463.50	14,323,454.20	13,509,611.65	10,451,230.19	8,672,823.58
Total (cost) bonds and stocks	448,208,768.85	455,385,197.81	455,491,809.95	459,112,345.89	466,391,233.15
Carried in balance sheet at	435,295,466.28	440,864,293.83	440,946,884.49	447,669,606.58	454,117,749.71
	A	A	A	A	A

NOTE—All figures for securities are shown at *actual cost*. Carried in balance sheet as A = Amortized value. B = Book value. M = Market value.
Statistics taken from the Reports of Superintendent of Insurance, New York, 1922–1926.

This table reflects the financial condition of the five largest American Insurance companies. As an evidence of their size and strength it may be noted that for the year ending December 31, 1925, the assets of these companies ranged from $746,000,000 to $1,854,000,000. It will also be observed that throughout the table the investments of all these companies seem to be well diversified from the standpoint of safety and probable yield.

In order to appreciate the plan of diversification generally followed by all these companies, we may select as an example the Metropolitan Life Insurance Company, and note, to begin with, that in 1921 this company had total assets of $1,115,583,024.54, which increased over a five-year period, ending December 31, 1925, to $1,854,657,482.42. Using these two figures as indices of growth, we may observe the scheme of diversification and also the alterations made in the various types of securities held during the period above mentioned by means of the following sub-table:

INVESTMENT HOLDINGS OF METROPOLITAN LIFE INSURANCE COMPANY

	1921	1925
Real Estate	28	26
Mortgages	454	820
Policy loans	75	134
Cash	10	14
Bonds		
U. S. Government	115	102
Canadian Government	34	47
Miscellaneous Government	51	69
Railroad	245	411
Public Utilities	50	119
Industrial		29
Stocks	6	3
	1068	1774

NOTE—In the above table the figures represent millions of dollars, the results being given in even millions.

Further examination of Table XVII reveals quite an interesting difference in policy between some of the companies in connection with mortgage investments. For instance, some of the companies have considerably increased their mortgages, indeed, as we have just seen,

over a five-year period the Metropolitan Life Insurance Company has increased its mortgage investments from $454,000,000 to $820,000,000. As a subordinate matter, the companies also appear to be in disagreement as to farm mortgages, the Mutual Life Insurance Company never appearing to have cared for this type of security, while the Prudential Insurance Company of America has pursued a somewhat erratic course with regard to it. Another interesting feature, and one on the whole to be expected, is the gradual reduction in holdings of Government bonds which appears upon the balance sheets of a majority of the group. This is probably a reflex of the later reconstruction period. It should also be observed that the stock holdings of all these great insurance companies are slight as compared with the amounts invested in bonds and mortgages. This is in accord with conservative investment theories and disregards the strong minority view which is being pressed so vigorously to-day by such able proponents as Mr. Edgar L. Smith of the Investment Managers Company. To a large extent, however, this is traceable to the restrictions of State laws imposed upon insurance companies.

It is easy to see, if this table is attentively studied, that the principal economic changes of this five-year period are definitely reflected in the tabulated results. Here we may see the amounts invested in railroad bonds steadily increasing as the railroads recover their strength during the post-war period and enter a new era of prosperity. It is also quite evident that the investment managers of the insurance group have noted and acted upon the tremendous improvement in the standing of public-utility securities, which has been one of the most arresting financial features of the past five years.

There are other movements and tendencies, statistically revealed by this table, on which comment might be made if space permitted; but the principal matter deserving emphasis is that here we have represented in a big way the true theory of the investment trust, in actual practice and with excellent results. The insurance companies of the United States are without question the largest and most trusted guardians of the people's wealth. If, therefore, after years of experience, it has seemed well to their executives to adopt in principle and in practice the investment-trust theory, is it not clear that such principles and such practices may well be adopted, under other conditions and under a different name, for the benefit of the American investor?

CONCLUSION

We have now reviewed the principal institutions akin to investment trusts which exist to-day in the United States. The investment-banking system, the Federal and joint-stock land banks, holding companies, mortgage companies, mutual savings funds, and life insurance companies—all of these established financial institutions possess in whole or in part the principles of the true investment trust. It has been well said that there is nothing new under the sun, and the only new thing about the investment trust is its name and the methods employed to put its principles into effect. After all has been said, there are only two basic principles which must be observed—diversification of risk, and conscientious, unselfish, and expert management. Management, where it is permitted, is the vital element, because with good management proper diversification will certainly be obtained.

APPENDIX A

THE BRITISH INVESTMENT TRUST

DEED OF AGREEMENT AND TRUST

between

THE SECOND SCOTTISH WESTERN INVESTMENT COMPANY, LIMITED

and

SIR JOHN TRAILL CARGILL, BARONET, AND TIMOTHY WARREN, AS TRUSTEES FOR THE HOLDERS OF SAID COMPANY'S DEBENTURE STOCK

ISSUE OF £300,000 5 PER CENT. DEBENTURE STOCK

Dated 19th December, 1923

Registered (B. of C. and S.), 8th January, 1924

THIS DEED OF AGREEMENT AND TRUST entered into and made by and between The Second Scottish Western Investment Company, Limited, incorporated under the Companies Act, 1908 to 1917, and having its Registered Office at No. 175 West George Street, Glasgow (hereinafter called "the Company"), of the first part, and Sir John Traill Cargill, Baronet, 175 West George Street, Glasgow, and Timothy Warren, Writer, 45 West George Street, Glasgow, as Trustees for the holders of the debenture stock aftermentioned, of the second part,

WITNESSETH, that WHEREAS by the Company's Articles of Association, the Directors of the Company are, *inter alia,* empowered from time to time, at their discretion, to borrow upon debentures or debenture stock or otherwise for the purposes of the Company any sum or sums of money, not exceeding in the aggregate the amount of the share capital for the time being subscribed, and to raise or secure the repayment of such moneys in such manner and upon such terms and conditions in all respects as they think fit, and in particular by the creation and issue of debenture stock, or the issue of debentures or obligations of the Company: AND WHEREAS the

share capital of the Company is £500,000, originally divided into 50,000 shares of £10 each (all of which were subscribed and issued for payment of the full amount thereof in cash), and now represented by £300,000 5 per cent. Preference Stock and £200,000 Ordinary Stock: AND WHEREAS, in exercise of the powers conferred upon them, as above narrated, the Board of Directors, on the 14th day of December, 1923, passed the following resolution, *videlicet:*

(1) That the sum of £300,000 be raised and borrowed by the Company, for the purposes of the Company, at interest at the rate of 5 per centum per annum, and that by the creation of debenture stock of the Company to the amount of the said sum, to be issued in such amounts, at such times, and on such terms, as the Board may from time to time decide;

(2) That the said stock shall be repayable at par on the 15th day of May, 1964, and shall be redeemable in the option of the Company, wholly or in part, on the 15th day of May, 1944, or at any time thereafter, on six months' previous notice being given, at the rate of £102 10s. per £100 (being the principal sum borrowed with the addition of a premium of two and one-half per cent. thereon), with interest to date of repayment or redemption; and further, that said stock shall be repayable at the said rate of £102 10s. per £100 in the event of the Company going into voluntary liquidation for the purpose of amalgamation or reconstruction at any time prior to said 15th May, 1964; and may at any time be purchased by the Company, by agreement with the holders, at such price as it shall think proper;

(3) That the Company shall grant in favour of Trustees nominated or to be nominated for behoof of the holders of said stock, and their successors in office, a Personal Bond for the said sum of £300,000, with interest as aforesaid, all ranking *pari passu,* and shall enter into a Deed of Agreement and Trust with the said Trustees for regulating the rights, duties and obligations of the Company, of the said Trustees, and their successors in office, and of the said stockholders; and

(4) That the said Deed of Agreement and Trust (with which is incorporated the form of said Personal Bond) shall be in the form of the draft thereof now submitted to the Board, approved, and docquetted and subscribed by the chairman as relative to this resolution.

AND WHEREAS, with the view of declaring the terms and conditions upon which the said debenture stock (hereinafter called "the stock") shall be issued and held, the second parties have been appointed, and have agreed to act as Trustee aforesaid, and to the effect aftermentioned; and WHEREAS it is right and proper that the rights, privileges, duties and obligations of the holders of the stock, of the Company, and of the Trustees above referred

to, in connection with the said issue of stock, should be expressed in writing: THEREFORE it is hereby agreed and declared as follows, *videlicet:*

1. In the construction of these presents, unless there shall be something in the subject or context inconsistent therewith, the following expressions shall be construed, and shall have the following meanings, *videlicet:*

"The Trustees" means the said Sir John Traill Cargill, Baronet, and Timothy Warren, and the survivor of them, and such other person or persons, company or corporation, as may from time to time be acting as Trustees or Trustee under these presents.

"The stock" means the sum of £300,000 which the Company may borrow in accordance with these presents, or such less sum, being part thereof, as may from time to time be outstanding.

"Stockholder" means a person entered on the register to be kept as hereinafter provided, as the holder for the time being of part of the debenture stock.

2. The stockholders are to be regarded as the beneficial owners of their respective portions of the stock, the Trustees having the legal title.

3. The stock is to be issued and allotted at such price or prices, and on such terms and conditions (being not inconsistent herewith) as the Board of Directors shall determine; and the Company shall grant in favour of the Trustees a Personal Bond for the nominal amount of the stock, with the interest thereon, all ranking *pari passu,* and that in the terms set forth in the First Schedule hereto. If and so long as the full nominal amount of the stock shall not be subscribed, or if at any time less than the full nominal amount thereof shall be outstanding, the Trustees shall be bound, if and when required by the Company, and at the expense of the Company, to grant from time to time an Acknowledgment or Acknowledgments to the Company, of the true amount of the Company's indebtedness for the time being to the Trustees, notwithstanding the amount of such indebtedness as expressed in the said Personal Bond. On the stock subscribed being fully paid up, in accordance with the conditions of issue thereof, every stockholder will be entitled to a certificate under the seal of the Company, and signed by one Director and the Secretary, stating the amount of the stock held by him, and every such certificate shall refer to these presents and have endorsed thereon the conditions upon which the stock therein referred to is issued, being those set forth in the Second Schedule hereto, and shall be in the form specified in the Fourth Schedule hereto, or as nearly in said form as circumstances will permit.

4. The stock shall be held subject to the conditions set forth in the Second Schedule hereto, and such conditions shall be binding on the stockholders and all persons claiming through them respectively.

5. The stock shall carry interest at the rate of 5 per cent. per annum, payable half-yearly on the 15th day of May and 15th day of November, and the first payment of interest shall be made on the 15th day of May, 1924.

6. The Company shall be bound, on the 15th day of May, 1964, to repay the whole of the stock at par, and shall have the right on the 15th day of May, 1944, or at any time thereafter, but not sooner, on giving six months' previous notice in writing to the stockholders, to redeem the whole or any part of the stock at a premium of two and one-half per cent. The Company may also at any time, by agreement with the holders, purchase the stock at such price as it may think proper. In the event of the Company at any time going into voluntary liquidation for the purpose of amalgamation or reconstruction, it shall be bound to repay the stock, or any outstanding balance thereof, at the said rate of £102 10s. per £100; but, in the event of the obligation or undertaking on the part of the Company becoming at any time enforceable, by reason of the occurrence of any of the events provided for by Article 10 hereof, the stock shall be repayable at par only.

7. In the event of the Company exercising its right to redeem the stock, as provided by the immediately preceding Article, the stock to be redeemed on each occasion, if less than the whole, shall be determined by a drawing to be made at the Registered Office of the Company by the Directors of the Company, not less than six calendar months before the said 15th day of May, 1944, or before any date fixed for the redemption of the stock thereafter. For the purpose of such drawing the Directors shall cause to be made out from the register of stock a list of the stockholders and of the amounts of stock held by them respectively, and in such list there shall be marked consecutive denoting numbers in respect of each £100 of stock; and in a ballot box there shall be placed a ticket in respect of each £100 of such stock, which tickets shall bear consecutive numbers corresponding to those marked in said list; and the amount appropriated for redemption on each occasion shall be applied in redeeming the portions of stock, the distinctive numbers of which correspond with the tickets first drawn until the said appropriated amount shall be exhausted. Provided always that in the division of the stock for the purposes of redemption drawings the Directors may disregard any fractional amount of stock less than £100. Every such drawing as aforesaid shall be made in the presence of a notary public, and of one or more of the Trustees, and the said notary public shall, if desired by any stockholder, grant a certificate specifying the lots drawn, which shall be conclusive evidence thereof.

8. Forthwith, after every such drawing, the Company shall give to the stockholders whose stock falls to be redeemed in terms of such drawing, notice in writing of the Company's intention, on a date not less than six months from the date of such notice, to redeem such stock, and each such stockholder shall be bound to lodge at the Registered Office of the Company, at least one month prior to such date of redemption, the stock certificate

held by him, in order that a discharge for the amount to be redeemed may be prepared for signature, and, where necessary, that a new certificate for the balance of stock unredeemed may be prepared. Not later than one week before the date of redemption the Company shall return to each such stockholder the certificate received from him, with discharge thereon for signature. On the date fixed for redemption each stockholder whose stock falls to be redeemed as aforesaid shall, on surrendering to the Company the certificate thereof, with the discharge duly completed, be entitled to payment from the Company at its Registered Office of the amount payable to him in respect of such redemption, and to delivery of a new certificate for any balance of stock unredeemed, the certificate for which had been surrendered. No interest shall be payable after the time fixed for redemption of any stock as aforesaid, in respect thereof, to any stockholder who shall fail to comply with this Article. The provisions of this Article shall, so far as appropriate, apply in the case of the redemption of the whole of said stock.

9. The Company hereby agrees with the Trustees that, so long as the stock or any part thereof shall remain outstanding, the Company will not borrow, either permanently or temporarily, from any person or persons, or from any company or companies, including specially any banks or bankers, any sum or sums of money beyond sums of such amount that the total sums borrowed by the Company at any time, including the stock for the time being outstanding, will not exceed the subscribed share capital of the Company for the time being, with the addition thereto of a further sum for temporary purposes limited to £100,000, for which specific security may be given; and the Company further agrees with the Trustees that, in the event of the Company's share capital being increased beyond the existing authorised amount of £500,000, any sums which may be borrowed in respect of such increased capital will not be borrowed or secured in such way as to rank preferably to the stock.

10. The obligation or undertaking on the part of the Company to pay the principal sums and interest for the time outstanding shall, subject to the provisions of Article 6 hereof, and subject also to the provisions of Article 12 and 23 hereof, become immediately enforceable by summary diligence or otherwise, in each and every of the events following; that is to say:

(1) If the Company shall for one calendar month make default in the payment of one-tenth of any interest which ought to be paid to the stockholders;

(2) If an order shall be made or an effective resolution be passed for the winding up of the Company in consequence of its inability to pay its debts;

(3) If a liquidator or receiver of the Company's undertaking shall be appointed, and such appointment shall, in the opinion of the Trustees, be prejudicial to the stockholders;

(4) If the Company shall stop payment, or shall, without the assent in writing of the Trustees, cease to carry on its business;

(5) If the Company shall contravene any of the undertakings of Article 9 of these presents; and

(6) If the Company shall be charged for payment of any sum for which it shall be liable and shall not make payment thereof before the expiry of the charge, or if any arrestment (other than an arrestment on the dependence of an action), poinding, or execution, shall be placed or levied or enforced upon or against any of the assets of the Company, or if any bill or promissory note accepted or made by the Company, or on which it shall be liable, shall be protested against the Company for non-payment, without the same in each case being discharged, withdrawn, or removed within one week from the date of such arrestment, poinding, execution, or protest; declaring, however, that the Trustees shall be entitled to waive enforcement of this sub-section in any case where in their opinion to do so would not be prejudicial to the stockholders.

11. When and so soon as the stock shall become payable in terms of the immediately preceding Article, the Trustees, may, in their discretion, and on the facts in respect of which such stock shall have become payable coming to their knowledge (without any request or assent), and shall, upon the request, in writing, of the holder of holders of one-half of the stock (and without any consent on the part of the Company or its successors), take such steps as the Trustees think fit to enforce the payment by the Company of the principal moneys and interest outstanding and to become due in respect of the stock. A certificate under the hand of any one of the Trustees, or of their law agent, shall be final and conclusive evidence of the occurrence of any of the events specified in the immediately preceding Article.

12. Before taking any legal proceedings to enforce payment as aforesaid, the Trustees shall (except when they shall certify that in their opinion further delay would imperil the interests of the stockholders, and except in the event of an order being made or an effective resolution being passed for the winding up of the Company) give to the Company written notice of their intention to proceed, and shall not take any legal proceedings if, in the case of such trust arising by reason of any default in payment of any principal moneys or interest, the Directors shall satisfy the Trustees that payment of the principal or interest so in arrears will be made within one calendar month next after such notice shall have been given to the Company, or if in the case of such trust arising in terms of sub-section (6) of Article 10 hereof, the Company shall forthwith upon such notice as aforesaid being given, remove or discharge such charge, arrestment poinding, execution, or protest.

13. The Trustees shall hold the moneys to arise from any such proceeding taken by them, including any sums that may be recovered by them under the said Personal Bond, upon trust that they shall thereout pay or retain the costs, charges, and expenses incurred in or about the execution of the enforcement of payment by the Company or otherwise in relation to these presents, and shall apply the residue of such moneys, firstly, in or towards payment to the stockholders, *pari passu* in proportion to the amounts due to them respectively, of all arrears of interest remaining unpaid on the stock held by them respectively; secondly, in or towards payment to the stockholders, *pari passu* in proportion to the stock held by them respectively and without preference or priority by reason of date of issue or otherwise howsoever, of all principal moneys due in respect of the stock held by them respectively, and that whether the said principal moneys shall or shall not then be payable; thirdly, in the event of the Company having gone into voluntary liquidation for the purpose of amalgamation or reconstruction, in or towards payment to the stockholders *pari passu* in proportion to the stock held by them respectively, and without any preference or priority as aforesaid, of the foresaid premium of two and one-half per cent.; and fourthly, shall pay the surplus (if any) of such moneys to the Company or its assigns.

14. The Trustees shall give not less than seven days' notice in the manner provided for by Article 19 of the day fixed for any payment to the stockholders under the immediately preceding Article, and after the day so fixed and notified, the holder of the stock shall only be entitled to interest on the balance (if any) of the principal moneys due on such stock after deducting the amount (if any) payable in respect thereof on the day so fixed.

15. The receipt of each stockholder for the principal moneys premium (if any) and interest payable by the Trustees to him in respect of such stock shall be a good discharge to the Trustees.

16. Each Trustee shall be entitled to payment from the Company, as remuneration, at the rate of £50 sterling per annum, beginning as from the last date of execution hereof.

17. Notwithstanding the Trustees being entitled to remuneration in terms of Article 16 hereof, they shall have all the rights, powers, privileges, and immunities which gratuitous Trustees have or may have in Scotland, including power to assume new Trustees and to resign office. The Trustees shall also, in the exercise of the duties falling or which may fall upon them in terms of these presents, have the fullest privileges and immunities, and, in particular, unless and until one or other of the events provided for in Article 10 shall have occurred and such occurrence shall have been brought to the actual knowledge of the Trustees, they shall neither be bound nor entitled to inquire into or interfere to any extent in the management and administration of the business of the Company or to concern themselves in any way therewith. They shall not be liable for the application of the sums borrowed or which may be borrowed by the Company, or for any neglect,

act of maladministration, or contravention of these presents by the Company, or for any mistake of judgment on their own part in the exercise of the discretionary powers or any of them conferred upon them under these presents, or for any depreciation at any time in the value of the assets of the Company.

18. The Trustees, may, in the conduct of the Trust business, employ and pay an agent, whether being a solicitor or other person, to transact or concur in transacting all business, and to do or concur in doing on behalf of the Trustees, all acts required to be done in the Trust, and any Trustee, being a solicitor, broker, or other person engaged in any profession or business, shall, in addition to his remuneration as such Trustee, be entitled to be paid all professional and other charges for business transacted and acts done by him or his firm in connection with the Trusts hereof.

19. Any notice may be given by the Company, or by the Trustees, to any holder of stock, by sending the same through the post in a prepaid letter addressed to such holder at his place of address, as given in the register of stockholders (to which the Trustees shall have access when required), and any notice so given shall be deemed to have reached the holder on the day following that on which it is posted. Any stockholder whose registered place of address is not in the United Kingdom may from time to time notify to the Company an address in the United Kingdom to which notices may be sent. Such address shall be entered in said register, and shall be deemed the registered place of address of such stockholder within the meaning of this Article.

20. The provision contained in the Third Schedule hereto shall have full effect in the same manner as if such provisions were herein set forth.

21. The Trustees may, whenever they think it expedient, in the interests of the stockholders delegate to any person or persons all or any of the trusts, powers, and discretions vested in them by these presents, and any such delegation may be made upon such terms and conditions and subject to such regulations (including power to sub-delegate) as the Trustees may think fit in the interests of the stockholders, and the Trustees shall not be in any wise responsible for any loss incurred by any misconduct or default on the part of any such delegate or sub-delegate.

22. Whenever there shall be more than two Trustees the majority of such Trustees shall be competent to execute and exercise all the trusts, powers, and discretions hereby vested in the Trustees generally.

23. The Trustees may, from time to time, and at any time, whenever they consider it expedient in the interests of the stockholders, waive, on such terms and conditions as to them shall seem expedient, any breach by the Company of any of the undertakings contained in these presents or in the Personal Bond referred to in Article 3 hereof.

24. The Company hereby agrees with the Trustees that the Company will duly perform and observe the obligations hereby imposed on it.

25. All actions, suits, and proceedings against the Company in terms

of or under these presents and the said Personal Bond shall be only at the instance of the Trustees, and the stockholders shall not have any right of action against the Company except through the Trustees.

26. The Company and the said Sir John Traill Cargill, Baronet, and Timothy Warren as Trustees foresaid, consent to the registration hereof and of the Four Schedules annexed, in the Books of Council and Session for preservation and execution. IN WITNESS WHEREOF these presents printed on this and the seven preceding pages are, along with the Four relative Schedules annexed, executed by all the parties hereto at Glasgow on the Nineteenth day of December, Nineteen hundred and twenty-three, as follows, viz.: They are sealed with the Common Seal of the said The Second Scottish Western Investment Company, Limited, and subscribed for and on behalf of said Company in terms of their Articles of Association by David Murray, one of their Directors, and by Brown, Fleming and Murray, Chartered Accountants, One hundred and seventy-five West George Street, Glasgow (the signature of said firm being adhibited by James Herbert Wilson, one of the partners thereof), their Secretaries, and they are subscribed by the said Sir John Traill Cargill, Baronet, all before these witnesses, John Houston, Writer, Glasgow, and William Henry Jamieson, Accountant in the service of the said Brown, Fleming and Murray; and they are subscribed by the said Timothy Warren before these witnesses William Wright and George Macdonald Crawford, both apprentices to Moncrieff, Warren, Paterson and Company, Writers, Glasgow.

(Sgd.) JOHN HOUSTON, (SEAL) Witness
(Sgd.) WM. H. JAMIESON, Witness
(Sgd.) WILLIAM WRIGHT, Witness
(Sgd.) G. MACDONALD CRAWFORD, Witness

(Sgd.) DAVID MURRAY, Director
(Sgd.) BROWN, FLEMING & MURRAY, Secretaries
(Sgd.) JOHN T. CARGILL
(Sgd.) TIMOTHY WARREN

SCHEDULES

REFERRED TO IN THE FOREGOING DEED OF AGREEMENT AND TRUST

FIRST SCHEDULE

FORM OF PERSONAL BOND REFERRED TO IN ARTICLE 3

WE, The Second Scottish Western Investment Company, Limited, incorporated under the Companies Acts, 1908 to 1917, and having our registered office at No. 175 West George Street, Glasgow,

Considering that our Board of Directors, have, in exercise of the powers conferred upon them by our Articles of Association, and in pursuance of a resolution passed by them on the 14th day of December, 1923, borrowed in our name and on our behalf the sum of £300,000 sterling by the creation and issue of debenture stock of us, The Second Scottish Western Investment Company, Limited, aforesaid, repayable at par on the 15th day of May, 1964, and redeemable in our option on or after the 15th day of May, 1944, at £102 10s. per cent., and bearing interest while unredeemed at 5 per cent. per annum, and repayable also in the event of the Company at any time going into voluntary liquidation for the purpose of amalgamation or reconstruction at the rate of £102 10s. per £100;

And Now Seeing that for the purpose of the more readily securing payment of the said debenture stock, and of the interest thereon, it has been arranged, that we should grant the personal obligation afterwritten;

Therefore, We, The Second Scottish Western Investment Company, Limited, aforesaid, hereby bind ourselves and our successors to pay to Sir John Traill Cargill, Baronet, 175 West George Street, Glasgow, and Timothy Warren, Writer, 45 West George Street, Glasgow, as Trustees acting under and for the purposes set forth in a Deed of Agreement and Trust made between us, of the first part, and the said Sir John Traill Cargill, Baronet, and Timothy Warren, of the second part, dated the ..... day of ....., 1923, or to the Trustees, or Trustee from time to time acting under the said Deed of Agreement and Trust, or to the assignees of the said Trustees or Trustee, on the 15th day of May, 1924, within the principal office in Glasgow of the Clydesdale Bank, Limited, the principal sum of £300,000 sterling, with a fifth part more of liquidate penalty in case of failure, and the interest on said principal sum at the rate of five pounds sterling per centum per annum from the date hereof, and that on the 15th day of May and 15th day of November in each year, by equal portions, beginning the first payment of the said interest on the said 15th day of May, 1924, for the interest due preceding that date, and the next payment thereof on the 15th day of November following, and so forth half-yearly termly and proportionally thereafter during the non-payment of the principal sum with a fifth part more of the interest due at each term of liquidate penalty in case of failure in the punctual payment thereof; Declaring, however, without prejudice in any way to the foregoing personal obligation, that the said Sir John Traill Cargill, Baronet, and Timothy Warren as Trustees foresaid, or the Trustees or Trustee for the time acting under the said Deed of Agreement and Trust shall only be entitled to demand or exact payment of the sums of money hereby undertaken to be paid upon the occurrence of one of the events aftermentioned, viz.:—(Primo) If we shall for one calendar month make default in the payment of one-tenth of any interest which ought to be paid to the holders of the said debenture stock; (Secundo) if an order shall be made, or an effective resolution be passed, for the winding up of us in consequence of our inability to pay

our debts; (Tertio) if a liquidator or receiver of our undertaking shall be appointed, and if the said Trustees shall be of opinion that such appointment is prejudicial to the holders of said debenture stock; (Quarto) if we shall stop payment or shall, without the assent in writing of the said Trustees, cease to carry on our business; (Quinto) if we shall contravene any of the undertakings of Article 9 of the said Deed of Agreement and Trust; and (Sexto) if we shall be charged for payment of any sum for which we shall be liable, and shall not make payment thereof before the expiry of the charge, or if any arrestment (other than an arrestment on the dependence of an action), or poinding, or execution, shall be placed or levied or enforced upon or against any of our assets, or if any bill or promissory note accepted or made by us or on which we shall be liable, shall be protested against us for non-payment, without the same in each case being discharged, withdrawn, or removed within one week from the date of such arrestment, poinding, execution, or protest, unless the said Trustees waive enforcement of this proviso; And it is hereby provided and declared that whatever sums of principal and interest may be paid by us to the holders of said debenture stock, in terms of the provisions of said Deed of Agreement and Trust, shall be deemed payments to account of the said principal sum of £300,000 and interest thereon, and that a certificate under the hand of any one of the Trustees for the time acting under the said Deed of Agreement and Trust, or under the hand of the law agent of said Trustees, given and certified to be given after due investigation, shall finally and conclusively fix and determine the amount of the principal sum and interest of which the creditors under these presents shall be entitled at any time or from time to time to demand and exact payment, under and in virtue of those presents without the necessity of any further voucher, and that such certificate shall be final and conclusive evidence that the event therein stated, entitling the creditors under these presents to enforce the same and to demand and exact payment of the sum or sums certified to be due or exigible in terms of the obligation herein contained, has occurred, and no such certificate shall be liable to challenge upon any ground whatever, and no suspension of a charge or other diligence following thereon or upon these presents shall be competent except, in either case, upon consignation of the whole sums of money, principal and interest, certified to be due and exigible under and in terms of these presents; And it is hereby further specially provided and declared that the said Sir John Traill Cargill, Baronet, and Timothy Warren as Trustees foresaid, and the Trustees or Trustee from time to time acting under the said Deed of Agreement and Trust, shall, as creditors under these presents, receive payment of the sums of money, principal and interest, and liquidate penalty, if incurred, which may become due and exigible under and in virtue hereof, and shall hold and apply the same for the ends, uses, and purposes, and in the manner specified in the said Deed of Agreement and Trust; And we consent to registration hereof, and of the certificate or certificates to

be granted as aforesaid, for preservation and execution. IN WITNESS WHEREOF.

SECOND SCHEDULE

Conditions of Issue of Debenture Stock of the Second Scottish Western Investment Company, Limited, constituted by Deed of Agreement and Trust made between the Company, of the first part, and Sir John Traill Cargill, Baronet, 175 West George Street, Glasgow, and Timothy Warren, Writer, 45 West George Street, Glasgow, as Trustees therein mentioned, of the second part, dated the ..... day of ....., 1923.

1. The stock is issued subject to the provisions of the Deed of Agreement and Trust above mentioned, including, without prejudice to the foregoing generality, the provisions in regard to the repayment or the redemption of the stock, as contained in Articles 6, 7, and 8, and in regard to the events, upon the occurrence of which the stock will become repayable, as contained in Article 10, all of said Deed of Agreement and Trust, and which Articles are respectively as follows:

6. The Company shall be bound on the 15th day of May, 1964, to repay the whole of the stock at par, and shall have the right on the 15th day of May, 1944, or at any time thereafter, but not sooner, on giving six months' previous notice in writing to the stockholders, to redeem the whole or any part of the stock at a premium of two and one-half per cent. The Company may also at any time, by agreement with the holders, purchase the stock at such price as it may think proper. In the event of the Company at any time going into voluntary liquidation for the purpose of amalgamation or reconstruction, it shall be bound to repay the stock, or any outstanding balance thereof, at the said rate of £102 10s. per £100; but, in the event of the obligation or undertaking on the part of the Company becoming at any time enforceable, by reason of the occurrence of any of the events provided for by Article 10 hereof, the stock shall be repayable at par only.

7. In the event of the Company exercising its right to redeem the stock, as provided by the immediately preceding Article, the stock to be redeemed on each occasion, if less than the whole shall be determined by a drawing to be made at the registered office of the Company by the Directors of the Company, not less than six calendar months before the said 15th day of May, 1944, or before any date fixed for the redemption of the stock thereafter. For the purpose of such drawing the Directors shall cause to be made out from the register of stock a list of the stockholders and of the amounts of stock held by them respectively, and in such list there shall be marked consecutive denoting numbers in

respect of each £100 of stock; and in a ballot box there shall be placed a ticket in respect of each £100 of such stock, which tickets shall bear consecutive numbers corresponding to those marked in said list; and the amount appropriated for redemption on each occasion shall be applied in redeeming the portions of stock, the distinctive numbers of which correspond with the tickets first drawn until the said appropriated amount shall be exhausted. Provided always that in the division of the stock for the purposes of redemption drawings the Directors may disregard any fractional amount of stock less than £100. Every such drawing as aforesaid shall be made in the presence of a notary public, and of one or more of the Trustees, and the said notary public shall, if desired by any stockholder, grant a certificate specifying the lots drawn, which shall be conclusive evidence thereof.

8. Forthwith, after every such drawing, the Company shall give to the stockholders whose stock falls to be redeemed in terms of such drawing notice of the Company's intention, on a date not less than six months from the date of such notice, to redeem such stock, and each such stockholder shall be bound to lodge at the registered office of the Company, at least one month prior to such date of redemption, the stock certificate held by him, in order that a discharge for the amount to be redeemed may be prepared for signature, and, where necessary, that a new certificate for the balance of stock unredeemed may be prepared. Not later than one week before the date of redemption the Company shall return to each such stockholder the certificate received from him, with discharge thereon for signature. On the date fixed for redemption each stockholder whose stock falls to be redeemed as aforesaid shall, on surrendering to the Company the certificate thereof, with the discharge duly completed, be entitled to payment from the Company at its registered office of the amount payable to him in respect of such redemption, and to delivery of a new certificate for any balance of stock unredeemed, the certificate for which had been surrendered. No interest shall be payable after the time fixed for redemption of any stock as aforesaid, in respect thereof, to any stockholder who shall fail to comply with this Article. The provisions of this Article shall, so far as appropriate, apply in the case of the redemption of the whole of said stock.

10. The obligation or undertaking on the part of the Company to pay the principal sums and interest for the time outstanding shall, subject to the provisions of Article 6 hereof, and subject to the provisions of Articles 12 and 23 hereof, become immediately enforceable by summary diligence or otherwise, in each and every of the events following; that is to say:

(1) If the Company shall for one calendar month, make default in the payment of one-tenth of any interest which ought to be paid to the stockholders;

(2) If an order shall be made or an effective resolution be passed for the winding up of the Company in consequence of its inability to pay its debts;

(3) If a liquidator or receiver of the Company's undertaking shall be appointed, and such appointment shall, in the opinion of the Trustees, be prejudicial to the stockholders;

(4) If the Company shall stop payment, or shall, without the assent in writing of the Trustees, cease to carry on its business;

(5) If the Company shall contravene any of the undertakings of Article 9 of these presents; and

(6) If the Company shall be charged for payment of any sum for which it shall be liable and shall not make payment thereof before the expiry of the charge, or if any arrestment (other than an arrestment on the dependence of an action), poinding, or execution, shall be placed or levied or enforced upon or against any of the assets of the Company, or if any bill or promissory note accepted or made by the Company, or on which it shall be liable, shall be protested against the Company for non-payment, without the same in each case being discharged, withdrawn, or removed within one week from the date of such arrestment, poinding, execution, or protest; declaring, however, that the Trustees shall be entitled to waive enforcement of this sub-section in any case where in their opinion to do so would not be prejudicial to the stockholders.

2. The Company will recognise the registered holder of any stock, his executors or administrators, as the absolute owner thereof, and all persons may act accordingly, and the Company shall not, save as herein provided and except as ordered by a Court of competent jurisdiction or as by statute required, be bound to take notice of any Trust or equity affecting the ownership of the stock or the rights incident thereto, and the receipt of such registered holder, his executors or administrators, for the interest from time to time accruing due in respect thereof and for any moneys payable upon the redemption of the same, shall be a good discharge to the Company, notwithstanding any notice it may have, whether express or otherwise, of the right, title, interest, or claim of any other person to or in such stock or moneys.

3. In case of the death of any one of the joint holders of any stock, the survivors or survivor will be the only persons or person recognised by the Company as having any title to or interest in such stock.

4. A body corporate may be registered as a holder or one of the joint holders of stock.

5. Every holder of stock will be entitled to transfer the same or any part thereof but only in sums of £10 or multiples of £10, by an instrument in writing in the usual common form.

6. Every such instrument must be signed both by the transferor and transferee, and shall be sufficiently executed if attested by one witness to each signature. The transferor shall be deemed to remain owner of such stock until the name of the transferee is entered in the register hereinafter mentioned in respect thereof.

7. Every instrument of transfer must be left at the registered office of the Company for registration, accompanied by the certificate of the stock to be transferred and such other evidence as the Directors may require to prove the title of the transferor or his right to transfer the stock.

8. All instruments of transfer which shall be registered will be retained by the Company.

9. A fee not exceeding 2s. 6d. will be charged for the registration of each transfer, and must, if required by the Directors, be paid before the registration of the transfer.

10. No transfer will be registered during the fourteen days in each year immediately preceding the 15th day of May and the 15th day of November.

11. The executors and administrators of a deceased holder of stock (not being one of several joint holders) shall be the only persons recognised by the Company as having any title to the stock held by such deceased stockholder.

12. Any person becoming entitled to any stock as tutor at law, curator bonis, judicial factor, factor loco absentis, or committee, of a lunatic or incapacitated or absent stockholder, or in consequence of the death or bankruptcy of any stockholder, or in any manner otherwise than by transfer, upon producing such evidence that he sustains the character in respect of which he proposes to act under this clause and is entitled to transfer, or of his title, as the Directors shall think sufficient, may be registered himself as the holder of such stock, or, subject to the preceding conditions as to transfer, may transfer such stock. This clause shall include any case in which a person becomes entitled as the survivor of persons registered as joint holders.

13. The Directors shall be at liberty to retain the interest payable upon any stock in respect of which any person under the last preceding clause is entitled to transfer until such person shall be registered or shall duly transfer the same.

14. The interest upon the stock may be paid by cheque or warrant sent through the post to the address of the holder as given in the register aftermentioned, or in case of joint holders to the so registered address of that one of the joint holders who is first named on the register in respect of the joint holding. Every such cheque or warrant may be made payable to the order of the person to whom it is sent, and payment of the cheque or warrant shall be a satisfaction of the interest.

15. If several persons are entered in the register as joint holders of any stock, then, without prejudice to the last preceding clause, the receipt of any one of such persons for the interest from time to time payable in

respect of such stock shall be as effective a discharge to the Company as if the person signing such receipt were the sole registered holder of such stock.

16. If any stock certificate issued pursuant to these conditions be worn out or defaced, then, upon production thereof to the Directors they may cancel the same, and may issue a new certificate in lieu thereof, and if any stock certificate be lost or destroyed, then, upon proof thereof to the satisfaction of the Directors, or in default of proof, on such indemnity as the Directors deem adequate being given, a new stock certificate in lieu thereof may be given to the person entitled to such lost or destroyed certificate. An entry as to the issue of the new certificate and indemnity (if any) shall be made in the register hereinafter mentioned. There shall be paid to the Company in respect of any new certificate issued under this clause such sum as the Directors shall determine, not exceeding the sum of one shilling, and also all stamp duty (if any) payable on the new certificate. Where an indemnity falls to be given the costs connected therewith, including any stamp duty, shall be paid by the person receiving the new certificate.

17. A register of the stock shall be kept by the Company in one or more books, and there shall be entered in such register:

(1) The names, addresses, and descriptions of the holders for the time being of the stock;

(2) The amount of the stock held by every such person, or by each body of joint holders; and

(3) The date at which the name of every such person was, or the names of each member of each body of joint holders were, entered in respect of the stock standing in his or their name or names.

Any change of name or address on the part of any registered holder shall forthwith be notified to the Company, the officials of which, on being satisfied thereof, shall alter the register accordingly.

18. The trustees under said Deed of Agreement and Trust and any stockholder shall, without any payment, be entitled at all reasonable times to inspect the said register.

19. The Company may, but shall not be bound to, enter any notice of any Trust, whether express, implied, or constructive, on the register in respect of any part of the stock.

20. In the case of joint stockholders all notices requiring to be given by the Company may be sent to the person who is first named in the register in respect of the joint holding.

Third Schedule

Meetings of Debenture Stockholders

1. The trustees or the Company may respectively at any time convene a meeting of the stockholders, and the Trustees shall be bound to convene

a meeting of the stockholders upon receiving a requisition in writing, signed by holders of at least one-tenth of the nominal amount of stock for the time being outstanding. Whenever the Company is about to convene any such meeting it shall forthwith give notice in writing to the Trustees of the place, day, and hour thereof, and of the nature of the business to be transacted thereat.

2. Seven days' notice at least to the stockholders, specifying the place, day, and hour of meeting, shall be given previously to any meeting of the stockholders. Such notice shall be given in accordance with Article 19 of the foregoing Deed of Agreement and Trust, and shall in the case of business to be dealt with by extraordinary resolution state the general nature of the business.

3. At any such meeting persons holding or representing by proxy one-tenth of the nominal amount of the stock for the time being outstanding shall form a quorum for the transaction of business, and no business shall be transacted at any meeting unless the requisite quorum be present at the commencement of business.

4. Some person nominated by the Trustees, including, if they think proper, one of their own number, shall be entitled to take the chair at every such meeting, and if no such person is nominated, or if at any meeting the person nominated shall not be present within fifteen minutes after the time appointed for holding the meeting, the stockholders present shall choose one of their number to be chairman.

5. The Trustees and their solicitors or solicitor, and any Directors and the Secretary and solicitors of the Company may attend any such meeting.

6. If within half an hour from the time appointed for any meeting of the stockholders a quorum is not present the meeting shall stand adjourned to the same day in the next week at the same time and place, and if at such adjourned meeting a quorum is not present the stockholders present shall form a quorum and may transact any business which a meeting of stockholders is competent to transact.

7. Every question submitted to a meeting of the stockholders shall be decided in the first instance by a show of hands, and in case of an equality of votes the chairman shall, both on the show of hands and at the poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a stockholder.

8. At any general meeting of the stockholders, unless a poll is demanded by the chairman or at least three stockholders, a declaration by the chairman that a resolution has been carried, or carried by a particular majority, or lost, or not carried by a particular majority, shall be conclusive evidence of the fact.

9. If at any such meeting a poll is demanded as aforesaid, it shall be taken in such manner and either at once or after an interval or adjournment or otherwise as the chairman may direct, and the result of such poll

shall be deemed to be the resolution of the meeting at which the poll was demanded.

10. The chairman may, with the consent of any such meeting, adjourn the same from time to time and from place to place.

11. Any poll demanded at any such meeting on the election of a chairman or on any question of adjournment shall be taken at the meeting without adjournment.

12. The registered holders of stock, or in the case of joint holders that one whose name stands first on the register as one of the holders thereof, shall be entitled to vote in respect of such stock either in person on a show of hands, or in person or by proxy at a poll, but every instrument appointing a proxy must be in writing under the hand of the appointer or his attorney, or in case of a corporation under its common seal or the hand of its attorney, and must be delivered to the chairman of the meeting, and every such proxy must be in the form or to the effect following, that is to say:

THE SECOND SCOTTISH WESTERN INVESTMENT COMPANY, LIMITED

I, ... of ..... a debenture stockholder of The Second Scottish Western Investment Company, Limited, hereby appoint ..... of ..... or failing him ..... of ..... to vote on my behalf at the meeting of the debenture stockholders of the said Company, which is to be held on the ..... day of ..... and at any adjournment thereof.

As witness my hand, etc.

The execution of a proxy need not be attested by witnesses.

13. No person shall be appointed a proxy unless he is a debenture stockholder, or one of the trustees or a director or other officer of a company that is a debenture stockholder.

14. At every such meeting each voter shall on a show of hands be entitled to one vote only but at a poll he shall be entitled to one vote in respect of every £10 of the stock in respect of which he is entitled to vote.

15. A general meeting of the stockholders shall, in addition to the powers hereinbefore given, have the following powers exerciseable by extraordinary resolution (as hereinafter defined), namely:

(1) Power to agree that the stock shall be exchanged for the shares or obligations or debenture stock of any company taking over this Company's business.

(2) Power to sanction or enter into any compromise or arrangement proposed to be made between the Company and the stockholders, provided that it is one which the Court would have jurisdiction to sanction under

the Companies (Consolidation) Act, 1908, or any statutory modification or re-enactment thereof for the time being subsisting if the Company were being wound up and the requisite majority at a meeting of the stockholders summoned pursuant to that Act or modification or re-enactment thereof aforesaid had agreed thereto.

(3) Generally power to sanction any modification or compromise of the rights of the stockholders against the Company whether such rights shall arise under the within-written Deed of Agreement and Trust or the Second Schedule thereto, or this Schedule thereto.

(4) Power to assent to any modification of the provisions contained in said Deed of Agreement and Trust, or the Personal Bond referred to in Article Third thereof, or in the Second Schedule to said Deed of Agreement and Trust or this Schedule thereto, which shall be proposed by the Company and assented to by the Trustees.

16. An extraordinary resolution passed at a general meeting of the stockholders, duly convened and held in accordance with this Schedule, shall be binding upon all the stockholders whether present or not present at such meeting, and each of the stockholders shall be bound to give effect thereto accordingly, and the passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof, the intention being that it shall rest with the meeting to determine (without any right of appeal being allowed) whether or not the circumstances justify the passing of such resolution.

17. The expression "extraordinary resolution," used in these presents, means a resolution passed at a meeting of the stockholders duly convened and held in accordance with the provisions herein contained, at which (except in the case of a second meeting as after provided) a clear majority in value of the whole stockholders shall be present in person or by proxy, and carried by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands, or, if a poll be duly demanded, by a like majority in value of the votes given at the poll. Declaring, however, that where a meeting of the stockholders has been duly convened for the purpose of transacting business requiring the passing of an extraordinary resolution or extraordinary resolutions, and a clear majority in value of the stockholders has not been present at such meeting in person or represented by proxy, it shall, if the Company or the Trustees think it expedient to do so, be competent to convene a second meeting of the stockholders for the purpose of dealing with the business which could not be transacted at the previous meeting on account of the non-representation of a clear majority in value of the stockholders, and at any such second meeting—provided the notice convening the same shall have given clear intimation of the general purport of any resolution or resolutions to be submitted thereat or at least of the general nature of the business proposed

to be transacted thereat and also of the fact that, by virtue of the provisions of these presents, the meeting will be entitled to deal with such resolution or resolutions or such business although a majority of the stockholders may not be represented thereat—it shall be competent, although less than a clear majority in value of the stockholders be present or represented by proxy, to submit a resolution or resolutions relating to the business for the transaction of which the original meeting was called, which resolution or resolutions, if passed by a majority consisting of not less than three-fourths of the persons voting at such second meeting upon a show of hands, or, if a poll be duly demanded, by a like majority in value of the votes given at the poll, shall be deemed to be an extraordinary resolution or extraordinary resolutions within the meaning of this Article.

18. Minutes of all resolutions and proceedings at every such meeting as aforesaid shall be made and duly entered in books to be from time to time provided for that purpose by the Company, and any such minutes as aforesaid, if purporting to be signed by the chairman of the meeting at which such resolutions were passed or proceedings took place, or by the chairman of the next succeeding meeting of the stockholders, shall be conclusive evidence of the matters therein contained, and until the contrary is proved every such meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened, and all resolutions passed thereat or proceedings had to have been duly passed and had.

FOURTH SCHEDULE

FORM OF STOCK CERTIFICATE

No. ..... L .....

THE SECOND SCOTTISH WESTERN INVESTMENT COMPANY, LIMITED

(Incorporated under the Companies Acts, 1908–1917)

Authorised and Issued Share Capital..... £500,000

Divided into

5 per cent. Preference Stock..... £300,000
Ordinary Stock..... £200,000

CERTIFICATE OF DEBENTURE STOCK

Issue of £300,000 Debenture Stock made pursuant to the Company's Articles of Association, and particularly Articles 14 and 15 thereof, and

to a resolution of the Board of Directors, passed on the 14th day of December, 1923, repayable at par on 15th May, 1964, and redeemable in the option of the Company on or after 15th May, 1944, at £102 10s. per cent., and bearing interest at the rate of 5 per cent. per annum, payable on the 15th day of May and 15th day of November in each year.

No mortgage or charge is given. The stockholders have no right of action against the Company except through the Trustees for the Stockholders.

THIS is to certify that .....
.....
.....is/are the registered holder of .....pounds of the above stock, which stock is constituted by Personal Bond, dated the..... day of ....., 1923, granted by the Company in favour of Sir John Traill Cargill, Baronet, 175 West George Street, Glasgow, and Timothy Warren, Writer, 45 West George Street, Glasgow, as Trustees therein mentioned, and by Deed of Agreement and Trust, dated the.....day of..... 1923, between the Company of the first part, and the said Sir John Traill Cargill, Baronet, and Timothy Warren, of the second part, and is issued subject to the provisions contained in said Deed and Schedules thereto annexed.

Given under the Common Seal of the Company this ..... day of ..... One thousand nine hundred and .....

.....Director
.....Secretaries

Folio .....

NOTE: The Company will not register a transfer of any stock without the production of the certificate relating to such stock, which certificate must be surrendered before any transfer, whether of the whole or any portion of such stock, will be registered, or a new certificate will be issued in exchange. The Company will not register or otherwise recognise a transfer of any fraction of £10 of stock. A fee not exceeding 2/6 will be charged on the registration of any transfer or other documents verifying the transmission of stock.

REGISTERED OFFICE OF THE COMPANY,
175 West George Street, Glasgow

(Sgd.) DAVID MURRAY, Director. (SEAL) (Sgd.) JOHN T. CARGILL
(Sgd.) BROWN, FLEMING & MURRAY, Secs. (Sgd.) TIMOTHY WARREN

MEMORANDUM OF ASSOCIATION
OF
THE BRITISH INVESTMENT TRUST, LIMITED

The objects for which the Company is established are:

(*a*) To raise money by Share Capital, on such terms and conditions as may be thought desirable, and to invest the amount thereof in or upon, or otherwise to acquire and hold, any of the Securities or Investments following (that is to say), the Shares and Stocks, whether Preference, Ordinary, or Deferred, and whether fully paid or not, Bonds, Obligations, Debentures, Debenture Stock, Scrip, and Securities of any Company, Corporation, or Trust, carrying on, or formed to carry on, business in the United Kingdom of Great Britain and Ireland, or the Colonies, or in any Foreign Country or State, or in the Stocks, Bonds, Debentures, Scrip, or Securities of any British, Colonial or Foreign Government, or authority—supreme, municipal, local, or otherwise, provided always that no investment imposing unlimited liability on the Company shall be made.

(*b*) To borrow or raise money by the issue or sale of any Bonds, Mortgages, Debentures, or Debenture Stock of the Company, whether perpetual or otherwise, or in any other manner, and to invest any money so raised in any such Securities or Investments as aforesaid: Provided that the total amount outstanding at any one time on the Company's Debentures, or Debenture Stock, shall not in the aggregate exceed a sum equal to the nominal amount of the Share Capital of the Company, for the time being issued and subscribed.

(*c*) To acquire any such Securities or Investments as aforesaid, by original subscription, tender, participation in Syndicates, or like negotiations, or otherwise, and whether or not fully paid up, and to make payments thereon as called up, or in advance of Calls, or otherwise to acquire any such Securities or Investments in excess of the monies for the time being proposed to be invested, and to sell or otherwise to dispose of any excess thereof; to subscribe for the same, either conditionally or otherwise; and generally to sell, exchange, or otherwise to dispose of, deal with, or turn to account, any of the Assets of the Company, or any Securities or Investments of the Company, acquired or agreed so to be; and to invest in or acquire by repurchase or otherwise any Securities or Investments of the kinds before enumerated, and to vary the Securities and Investments of the Company from time to time.

(*d*) To make advances upon, hold in trust, buy, sell, or otherwise acquire, and dispose of on commission, or otherwise, any such Securities or Investments as aforesaid, and upon the Securities of landed property, build-

ings, and hereditaments, or any interest therein, in any British, Colonial, or Foreign Country or State, and to act as Agents or Trustees for any of the above or the like purposes.

(*e*) To take, make, execute, enter into, commence, carry on, prosecute, and defend all steps, contracts, agreements, negotiations, legal and other proceedings, compromises, arrangements, and schemes; and to do all other acts, matters, and things which shall, at any time, appear conducive or expedient for the protection of the Company, as holders of or interested in any such Securities and Investments as aforesaid, or for obtaining payment of the moneys payable thereon.

(*f*) To make, draw, accept, indorse, issue, discount, and otherwise deal with Promissory Notes, Bills of Exchange, Letters of Credit, Circular Notes, and other Mercantile Investments.

(*g*) To deal with any Bank or Banks or others in the way of placing money on current-account or deposit, or to borrow money from such Banks or others either with or without the deposit of Securities, in addition to the Debenture Capital of the Company.

(*h*) To apply for any Act of Parliament for effecting any modification of the Company's Constitution, or for any other purpose which may seem expedient.

(*i*) To do all acts which may seem necessary or convenient for carrying on or transacting any business of the Company, either in a foreign country or colony, or in Great Britain, and also to appoint a Trustee or Trustees to hold any property, heritable or moveable, real or personal, on behalf of the Company.

(*j*) To do all or any of the matters aforesaid either alone or in conjunction with any other Company, Trust, Corporation, or person, and that either by amalgamation or otherwise.

(*k*) To receive the Dividends, Income, Profits, and advantages of every description, from time to time payable or receivable in respect to the Company's Securities and Investments, and to apply the same respectively, according to the provisions of the Articles of Association in force for the time being.

(*l*) To remunerate any person or persons for services rendered in relation to the formation, promotion, registration, and establishment of the Company, or placing the Share and Debenture Capital of the Company, and to pay all costs and charges preliminary and incidental thereto.

(*m*) To do all such other things as are incidental or conducive to the attainment of the above objects.

MEMORANDUM OF ASSOCIATION
OF
THE NORTHERN AMERICAN TRUST COMPANY, LIMITED

The objects for which the Company is established are:

(*a*) To raise money by Share Capital, on such terms and conditions as may be thought desirable, and to invest the amount thereof in or upon, or otherwise to acquire and hold, any of the Securities or Investments following (that is to say), the Shares and Stocks, whether Preference, Ordinary, or Deferred, and whether fully paid or not, Bonds, Obligations, Debentures, Debenture Stock, Scrip, and Securities of any Company, Corporation, or Trust, carrying on, or formed to carry on, business in the United Kingdom of Great Britain and Ireland, or any British Colony or Dependency, or in any Foreign Country or State, or property real or personal wherever situated, or in the Bonds, Obligations, Debentures, Stocks, Scrip, or Securities of any Government or authority—supreme, municipal, local, or otherwise—in the aforesaid Countries, Colonies, Dependencies, or States; provided always that no investment shall be made imposing unlimited liability on the Company.

(*b*) To borrow or raise money by the issue or sale of any Bonds, Mortgages, Debentures, or Debenture Stock of the Company, whether perpetual or otherwise, or in any other manner, and to invest any money so raised in any such Securities or Investments as aforesaid; Provided that the total amount outstanding at any one time on the Company's Debentures, or Debenture Stock, shall not in the aggregate exceed a sum equal to the nominal amount of the Share Capital of the Company, for the time being issued and subscribed.

(*c*) To acquire any such Securities or Investments as aforesaid, by original subscription, tender, participation in Syndicates, or like negotiations, or otherwise and whether or not fully paid up, and to make payments thereon as called up, or in advance of Calls, or otherwise to acquire any such Securities or Investments in excess of the moneys for the time being proposed to be invested, and to be invested, and to sell or otherwise to dispose of any excess thereof; to subscribe for the same, either conditionally or otherwise; and generally to sell, exchange, or otherwise to dispose of, deal with, or turn to account, any of the Assets of the Company, or any Securities or Investments of the Company, acquired or agreed so to be; and to invest in or acquire by repurchase or otherwise any Securities or Investments of the kinds before enumerated, and to vary the Securities and Investments of the Company from time to time.

(*d*) To make advances to any person, Firm, Company, or Corporation, upon, or to hold in trust, buy, sell, or otherwise acquire, and dispose of on

commission, or otherwise, any such Securities or Investments as aforesaid, and to make advances upon the Security of landed property, buildings, and hereditaments, or any interest therein, in the United Kingdom of Great Britain and Ireland, or any British Colony or Dependency, or in any Foreign Country or State, and to act, as Agents or Trustees for any of the above or the like purposes.

(*e*) To take, make, execute, enter into, commence, carry on, prosecute, and defend all suits, contracts, agreements, negotiations, legal and other proceedings, compromises, arrangements, and schemes; and do all other acts, matters, and things which shall, at any time, appear conducive or expedient for the protection of the Company, as holders of or interested in any such Securities and Investments as aforesaid, or for obtaining payment of the moneys payable thereon.

(*f*) To make, draw, accept, indorse, issue, discount, and otherwise deal with Promissory Notes, Bills of Exchange, Letters of Credit, Circular Notes, and other Mercantile Instruments.

(*g*) To deal with any Bank or Banks or any Person, Firm, Company, or Corporation, in the way of placing money on current-account or deposit, or on loan, with or without security, or to borrow money from such Banks or others either with or without security, in addition to the Debenture Capital of the Company.

(*h*) To apply for any Act of Parliament or Provisional Order for effecting any modification of the Company's Constitution, or for any other purpose which may seem expedient.

(*i*) To do all acts which may, in the opinion of the Company, seem necessary or convenient for carrying on or transacting any business of the Company, either in the United Kingdom of Great Britain and Ireland or any British Colony or Dependency, or in any Foreign Country or State, and also to appoint a Trustee or Trustees to hold, on behalf of the Company, any property, heritable or moveable, real or personal, wherever situated.

(*j*) To do all or any of the matters aforesaid either alone or in conjunction with any other Company, Trust, Corporation, or person, and that either by amalgamation or otherwise.

(*k*) To receive the Dividends, Income, Profits, and advantages of every description from time to time payable or receivable in respect of the Company's Securities and Investments, and to apply the same respectively, according to the provisions of the Articles of Association in force for the time being.

(*l*) To remunerate any person or persons for services rendered in relation to the formation, promotion, registration, and establishment of the Company, or placing the Share and Debenture Capital of the Company, and to pay all costs and charges preliminary and incidental thereto.

(*m*) To do all such other things as in the opinion of the Company are incidental or conducive to the attainment of the above objects.

MEMORANDUM OF ASSOCIATION

OF

THE SECOND SCOTTISH WESTERN INVESTMENT COMPANY, LIMITED

The objects for which the Company is established are:

(*a*) To undertake and carry on the business of an investment, lending, and agency company, and to exercise as principal, or as trustee or agent for any person or persons, all or any of the objects hereby authorised.

(*b*) To invest the capital and other moneys of the Company in the purchase, or to lend the same upon the security, of shares, stocks, debentures, debenture stocks, bonds, mortgages, obligations, and securities of any kind, issued or guaranteed by any company, corporation, or undertaking, of whatever nature, constituted or carrying on business in the United Kingdom of Great Britain and Ireland, or in any colony or dependency or possession thereof, or in the United States of America, or in any other foreign country or State, and of debentures, debenture stocks, bonds, obligations, and other securities issued or guaranteed by any Government, Sovereign Ruler, Commissioners, public body or authority—supreme, municipal, local, or otherwise—whether at home or abroad; provided (1) that no investment imposing unlimited liability on the Company shall be made; (2) that the moneys of the Company shall neither be employed in the purchase, nor lent upon the security, of its own shares or stock; and (3) that no purchase or acquisition of any particular security or investment shall be made, by which, at the price paid therefor by the Company, the holding of the Company in such security or investment, or in any one company, corporation, or undertaking, would exceed in amount one-twentieth part of the combined subscribed share and debenture capital or one-tenth part of the subscribed share capital of the Company, for the time being, whichever is the greater.

(*c*) To acquire any such shares, stocks, and others before mentioned by subscription, syndicate participation, tender, purchase, exchange, or otherwise, and to subscribe for the same, either conditionally or otherwise, and to guarantee the subscription thereof, and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof.

(*d*) To sell, exchange, or otherwise dispose of, deal with, or turn to account, any of the shares, stocks, and others acquired or agreed to be acquired, and generally to vary the securities and investments of the Company from time to time.

(*e*) To borrow or raise money in such manner as may be thought fit, and for that purpose to issue debentures or debenture stock, perpetual or redeemable, or to accept bills of exchange, or make promissory notes,

and to secure the re-payment of any moneys borrowed or raised or owing by the Company by a charge or lien upon, or conveyance of, the whole or any part of the Company's property or assets, including its uncalled capital, and to give to lenders and creditors, or trustees for their behoof, powers of sale and all other usual and necessary powers.

(*f*) To lend and advance money or give credit to such persons or companies or corporations and on such terms as may be thought fit, and in particular to persons dealing with the Company, and to give guarantees or become security for any such persons or companies or corporations.

(*g*) To facilitate and encourage the creation, issue, or conversion of debentures, debenture stock, bonds, obligations, shares, stocks, and other securities, and to act as trustee in connection with any such securities, and to take part in the conversion of business concerns and undertakings into public or private companies.

(*h*) To take part in the management, supervision, and control of the business or operations of any company or undertaking, and for that purpose to appoint and remunerate any Directors, accountants, or other experts or agents.

(*i*) To constitute any trusts with a view to the issue of preferred, deferred, or any other special stocks or securities based on or representing any shares, stocks, or other assets specifically appropriated for the purposes of any such trust, and to settle and regulate, and, if thought fit, to undertake and execute any such trusts, and to issue, dispose of, or hold any such preferred, deferred, or other special stocks or securities.

(*j*) To transact or carry on all kinds of agency business—in particular in relation to the investment of money, the sale of property, and the collection and receipt of money.

(*k*) To give any guarantee in relation to the repayment of any debentures, debenture stock, bonds, obligations, or other securities, or the payment of any interest or dividends thereon.

(*l*) Generally to carry on business as financiers, and to undertake and carry out all such operations and transactions as an individual capitalist may lawfully undertake and carry out.

(*m*) To carry on in connection with the above such other businesses as may be conveniently or profitably carried on therewith, or may usefully employ or turn to account or enhance the value of, or render profitable, any of the Company's property or rights.

(*n*) To acquire and undertake the whole or any part of the business, goodwill, and assets of any person, firm, or company carrying on or proposing to carry on any of the businesses which this Company is authorised to carry on, and as part of the consideration for such acquisition, to undertake all or any of the liabilities of such person, firm, or company, or to acquire an interest in, amalgamate with, or enter into any arrangement for sharing profits, or for co-operation, or for limiting competition, or for mutual assistance, with any such person, firm, or company, and to give

or accept by way of consideration for any of the acts or things aforesaid, or for any property acquired, any shares, debentures, or securities that may be agreed upon, and to hold and retain, or sell, mortgage, and deal with any shares, debentures, or securities so received.

(*o*) To promote any other company for the purpose of acquiring all or any of the property, and undertaking all or any of the liabilities of this Company, or of undertaking any business or operations which may appear likely to assist or benefit this Company, or to enhance the value of any property or business of this Company, and to place or guarantee the placing of, underwrite, apply for, accept and hold, or subscribe, the whole or any part of the capital or securities of any such company, or to lend money to, or guarantee the performance of the contracts of, any such company.

(*p*) To sell or otherwise dispose of the whole or any part of the undertaking of the Company, either together or in portions, for such consideration as may be agreed upon, and in particular for shares, debentures, debenture stock, or securities of any company purchasing the same.

(*q*) To lend money upon the security of any lands, hereditaments, or real or heritable property of any description or tenure, or of any interest therein, situated in any part of the world.

(*r*) To apply for, promote, and obtain any Act of Parliament, Provisional Order, or license of the Board of Trade or other authority, for enabling the Company to carry out its objects or any of them, or for conferring on the Company any additional powers, or for modifying these presents, or for any other purpose which may seem expedient, and to oppose any bills, proceedings, or applications which may be thought to be directly or indirectly prejudicial to the Company.

(*s*) To acquire or obtain from any Government or authority, supreme, municipal, local, or otherwise, or any corporation, company, or person, any charters, rights, privileges, and concessions which may be conducive to any of the objects of the Company, and to accept, make payments under, carry out, exercise, and comply with any such charters rights, privileges, and concessions.

(*t*) To act as agents, or brokers, and as trustees, for any person, firm, or company, and to undertake and perform sub-contracts, and also to act in any of the businesses of the Company through or by means of agents, brokers, sub-contractors, or others.

(*u*) To remunerate any person, firm, or company rendering services to this Company, either by cash payment or by the allotment to him or them of shares or securities of the Company credited as paid up in full or in part, or otherwise.

(*v*) To pay all or any expenses incurred in connection with the formation, promotion, and incorporation of the Company, or to contract with any person, firm, or company to pay the same and to pay commissions to brokers and others for underwriting, placing, selling, or guaranteeing the

subscription of any shares, debentures, or securities of this Company, or of any company promoted by this Company.

(*w*) To effect insurance against risk of loss to the Company.

(*x*) To distribute among the members of the Company in kind any property of the Company, and in particular any shares, debentures, or securities of other companies, belonging to this Company, or of which this Company may have the power of disposing.

(*y*) To procure the Company to be registered or recognised in any colony, dependency, or possession, and in any foreign country or place.

(*z*) To do all such other things as may be deemed incidental or conducive to the attainment of the above objects, or any of them.

MEMORANDUM OF ASSOCIATION OF THE RUBBER PLANTATIONS INVESTMENT TRUST, LIMITED

The objects for which the Company is established are:

(1) To acquire and hold shares, stocks, debentures, debenture stock, perpetual or otherwise, annuities, bonds, obligations and securities issued or guaranteed by any company, constituted or carrying on business in the United Kingdom or in any colony or dependency or possession thereof, or in any foreign country, colony, dependency or possession, and debentures, and debenture stock, bonds, obligations and securities issued or guaranteed by any government, sovereign, ruler, commissioners, public body, or authority, supreme, municipal, local, or otherwise, whether at home or abroad.

(2) To acquire any such shares, stocks debentures, debenture stock, bonds, obligations or securities by original subscription, tender, purchase, exchange or otherwise, and to subscribe for the same either conditionally or otherwise, and to underwrite or guarantee the subscription thereof, and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof.

(3) To purchase or otherwise acquire and deal in real and personal property of all kinds, and any interests therein, including reversions, mortgages, charges, annuities, patents, licenses, policies, book debts, investments, and claims of every kind.

(4) As a first operation or otherwise, as and when thought fit, to enter into and carry into effect, with or without modification, the agreement for the acquisition by the Company of the investments therein mentioned, referred to in Clause 4 of the accompanying Articles of Association.

(5) To carry on business as financiers and to act as financial advisers, and to facilitate and encourage the creation, issue, or conversion of debentures, debenture stock, bonds, obligations, shares, stocks and securities, and to act as trustees in connection with any such securities, and to take part in the conversions of business concerns and undertakings.

(6) To borrow, raise, or secure the payment of money in such manner as the Company shall think fit, and in particular by the issue of debentures or debenture stock, perpetual or otherwise, charged upon all or any of the Company's property (both present and future), including its uncalled capital, or not so charged, and to redeem, purchase or pay off any such securities.

(7) To advance and lend money and assets of all kinds upon such terms as may be arranged.

(8) To manage, supervise or control the business or operations of any company or undertaking, and for that purpose to appoint and remunerate any Directors, accountants or other experts or agents.

(9) To constitute any trusts with a view to the issue of preferred and deferred or any other special stocks or securities based on or representing any shares, stocks or other assets specifically appropriated for the purposes of any such trust, and to settle and regulate, and if thought fit to undertake and execute, any such trusts, and to issue, dispose of, or hold any such preferred, deferred or other special stocks or securities.

(10) To undertake and execute any trusts, and to undertake the office of executor or administrator, or trustee, or any other office of trust or confidence in any case where the Company shall think fit, and to co-operate with executors and trustees in the financial administration of any estate or trust, also to undertake the management of any property, to undertake the office of receiver, liquidator, treasurer or auditor, and to keep for any company, authority or body any register relating to any stocks, funds, shares or securities, and to undertake any duties in relation to the registration of transfers, the issue of certificates or otherwise, and to keep any accounts.

(11) To receive money, deeds or documents of title, or other valuables or property, on deposit, or for safe custody or otherwise, and generally to carry on the business of a safe deposit company.

(12) To transact or carry on all kinds of trust and agency business, and in particular in relation to the investment of money, the sale of property and the collection and receipt of money, and to give any advice or assistance with regard to investments, and any opportunity which may be thought fit of participating in any business in which the Company is interested.

(13) To give any indemnity or guarantee in relation to any matter arising in the course of the business of the Company, including any indemnity or guarantee with reference to the payment of any debentures, debenture stock, bonds, obligations, securities, shares or stock.

(14) To undertake and carry on any business which may seem to the Company capable of being conveniently carried on in connection with any of the above specified objects, or calculated directly or indirectly to enhance the value of or render profitable any of the Company's property or rights.

(15) To lay out land for building purposes, and to build on, improve,

let on building lease, advance money to persons building on, or otherwise develop the same in such manner as may seem expedient to advance the Company's interests.

(16) To purchase or otherwise acquire and undertake all or any part of the business, property and liabilities of any person or company carrying on any business which this Company is authorized to carry on, or possessed of property suitable for the purposes of the Company.

(17) To construct, carry out, maintain, improve, manage, work, control and superintend any works and conveniences which may seem directly or indirectly conducive to any of the Company's objects, and to contribute to, subsidise, or otherwise assist, or take part in such maintenance, management, working, control and superintendence.

(18) To enter into any arrangement with any government or authorities, supreme, local or otherwise, and to obtain from any such government or authority, all rights, concessions and privileges that may seem conducive to the Company's objects or any of them.

(19) To enter into partnership or into any arrangement for sharing profits, union of interests, joint adventure, reciprocal concessions or co-operation with any person or company carrying on or engaged in or about to carry on or engage in any business or transaction which the Company is authorized to carry on or engage in, or any business or transaction capable of being conducted so as directly or indirectly to benefit this Company, and to subsidise or otherwise assist any such company.

(20) Generally to purchase, take on lease, or in exchange, hire or otherwise acquire any real or personal property, or any rights or privileges which the Company may think necessary or convenient with reference to any of these objects or capable of being profitably dealt with in connection with any of the Company's property or rights for the time being, and in particular any land, buildings, easements, licences, patents, machinery, ships, barges, rolling stock, plant and stock-in-trade.

(21) To establish and support, or to aid in the establishment and support of, associations, institutions or conveniences calculated to benefit employes or ex-employes of the Company, or the dependents or connections of such persons, and to grant pensions and allowances, and to make payments toward insurance, and to subscribe or guarantee money for charitable or benevolent objects, or for any exhibition, or for any public, general or useful object.

(22) To sell the undertaking of the Company or any part thereof for such consideration as the Company may think fit, and in particular for shares or debentures, debenture stock or other securities of any other company having objects altogether or in part similar to those of this Company.

(23) To promote any company or companies for the purpose of its or their acquiring all or any of the property, rights, and liabilities of this Company, or for any other purpose whatever.

(24) To invest and deal with the moneys of the Company not immediately required in such manner as may from time to time be determined.

(25) To obtain any Provisional Order or Act of Parliament for enabling the Company to carry any of its objects into effect, or for effecting any modification of the Company's constitution, or for any other purpose which may seem expedient, and to oppose any proceedings or applications which may seem calculated directly or indirectly to prejudice the Company.

(26) To draw, accept, indorse, discount, execute and issue bills of exchange, promissory notes, debentures, bills of lading, warrants and other negotiable or transferable instruments or securities.

(27) To remunerate any parties for services rendered or to be rendered in placing or assisting to place any shares in the Company's capital, or any debentures, debenture stock or other securities of the Company, or in or about the formation or promotion of the Company, or the conduct of its business.

(28) To do all or any of the above things in any part of the world, and either as principals, agents, trustees, contractors or otherwise, and either alone or in conjunction with others, and either by or through agents, sub-contractors, trustees or otherwise.

(29) To sell, improve, manage, develop, enfranchise, lease, mortgage, dispose of, turn to account, or otherwise deal with, all or any part of the property or rights of the Company.

(30) To do all such other things as are incidental or conducive to the attainment of the above objects, and so that the word "Company" in this clause shall be deemed to include any partnership or other body of persons whether incorporated or not incorporated, and whether domiciled in the United Kingdom or elsewhere, and so that the objects specified in each paragraph of this clause shall, except when otherwise expressed in such paragraph, be in nowise limited or restricted by reference to or inference from the terms of any other paragraph or the name of the Company.

MEMORANDUM OF ASSOCIATION OF THE ALLIANCE TRUST COMPANY, LIMITED

The objects for which the Company is established are all or any of the following: The Company having power to do any part of the matters mentioned in one paragraph apart from any other part of the same matters, and none of the general or other descriptions given in this Article to be subject to limitation or qualification by any other part of this Article, or to be limited to matters of the same or a similar kind to those therein previously or elsewhere mentioned or referred to viz:

(a) To carry on the business of the Lending and Trust or Agency Company, and to undertake and do, either as principal or Trustee or Agent for any person or persons, any Loaning or Financial or other business.

(*b*) The purchasing, acquiring, or taking over, by agreement or otherwise, and upon any terms or conditions, all or any part of the Undertaking of any Mortgage and Trust Investment Company, or of any Investment Company or other Company (any such Company or Companies being hereafter in this Article called "the old Company"), including in said terms and conditions the giving or issuing of Shares in this Company to the old Company or its Members paid up or held to be paid up, to any amount or extent, and also including in such terms and conditions any obligation to bear and discharge all or any of the Debts, Liabilities, and Engagements of the old Company, and the Winding up and Liquidating the affairs of the old Company, and bearing and discharging the expenses and other liabilities thereby incurred or occasioned.

(*c*) The purchasing, leasing, or otherwise acquiring; holding, using, and managing; and selling, leasing, or otherwise disposing of Lands, Hereditaments, and Real Property, including any Minerals, and any interest in Lands, Hereditaments and Real Property, including as aforesaid (all of which are hereafter in this Article called Lands), of any and every description and tenure, situated in any part of the world, and that either as principal or Trustees or Agent for any person or persons.

(*d*) The improving, cultivating, clearing, draining, irrigating and using, agriculturally or otherwise, and erecting and maintaining buildings and other improvements of any or every description upon, or otherwise turning to account, developing, managing, and improving any lands belonging to, or leased, used or occupied or held by or mortgaged to the Company, or managed by it as Trustee or Agent for any person or persons.

(*e*) The stocking, either as principal or Trustee or Agent, of any Lands, or any portion thereof, with cattle, sheep, hogs, horses, mules, or other live or dead stock; the breeding, grazing, and rearing, and from time to time selling stock, and restocking any Lands, and the carrying on of such agricultural, lumbering, trading, manufacturing, and other operations, and the making and maintaining of such erections on any Lands as to the Company may from time to time seem right.

(*f*) The promoting and assisting emigration to, and colonisation and development of, any Lands, whether belonging to the Company or not.

(*g*) The constructing, purchasing, making, taking on lease, or otherwise acquiring or disposing of, and operating or otherwise using any railways, tramways, roads, quays, wharves, docks, canals, telegraphs, telephones, warehouses, and other buildings or erections, whether on the Lands of the Company or held by it as Trustee or Agent or not; and acquiring or disposing of or constructing and using any plant, implements, machinery, works, stores, or materials upon or in connection with any Works or Lands whether belonging to or leased by the Company or held by it as Trustee or Agent or not.

(*h*) The lending or investing Money in or upon the security of, and by way of mortgage, pledge, or otherwise, on or over any Lands, Heredita-

ments, or Real Property of any description or tenure, or any interest therein, situated in any part of the world, or on the security of any mortgages or other Liens of Real Estate.

(*i*) The lending Money upon, or purchasing or otherwise acquiring as principal or Trustee or Agent, and holding Warehouse or other Receipts, Certificates or Warrants, Bills of Lading or the contents thereof, or any crops or produce whatsoever, or any stock or stocking, bullion or fungibles, or effects, or moveables of any kind.

(*j*) The subscribing to, purchasing, or otherwise acquiring, or lending money upon any Stock, Scrip, Shares, Bonds, Notes, Debentures, Mortgages, or other Securities, whether fully paid up or not, of any State, Government, Authority, Company, Syndicate, Partnership, or Person, British, Colonial, or Foreign, and holding, dealing in, or selling the same, or distributing the same, among any persons who may be entitled thereto.

(*k*) The applying for and obtaining, by grant, purchase, or otherwise, any concessions of any right, property, or privileges by any Government, British, Colonial, or Foreign, or by any Person, Corporation, State, County, Company, or Authority, and performing and fulfilling the terms thereof.

(*l*) The acquiring, buying, or lending money upon and holding or selling Shares, Stock, Scrip, Bonds, Notes, Debentures, Mortgages, or other Securities, of any Company, Society, Partnership, or Person, or of any Government, State, County, Local Board, City, Municipality, or other Authority whatsoever, and whether British, Colonial, or Foreign, or the taking over such Shares, Stock, Scrip, Bonds, Notes, Debentures, Mortgages, or other Securities, upon trusts and conditions partly or wholly for the benefit of other persons, and issuing against such matters or things so taken over Certificates conferring such rights, in such order, and subject to such conditions, as may be agreed.

(*m*) Procuring the Company or any other Company to be incorporated or registered in any Colony, Dependency, State, Territory, Province, or Foreign Country, or doing whatever else is necessary or expedient in order to comply with or defer to the laws and customs of such Colony, Dependency, State, Territory, Province, or Foreign Country.

(*n*) Issuing on behalf of other Companies, Societies, Partnerships, or Persons, or of any Government, State, County, Local Board, City, Municipality, or other Authority, all or any of their Shares, Stock, Scrip, Bonds, Notes, Debentures, Mortgages, or other Securities, with or without any guarantee or collateral obligation by this Company.

(*o*) Forming other Companies for all or any of the objects mentioned in this Article, in any Colony, Dependency, State, Territory, Province, or Foreign Country, and transferring or procuring to be transferred to them any property or business belonging to this Company, or which this Company can control, or which it may be thought desirable this Company should not itself acquire or retain, and taking, acquiring, and holding Shares, subject or not subject to calls or other liabilities, or Bonds of or

in any such new Company, and holding or selling such Shares or Bonds of or in any such new Company, and holding or selling such Shares or Bonds, or distributing them among the Members of the Company formed for any of the foregoing purposes.

(*p*) Selling, demising, letting out, or licensing the use of all or any part of the business, property, and rights of this Company or of its clients, in such manner, for such period, and on such terms and conditions as this Company shall think proper.

(*q*) To agree with any Individual or Corporation, so that such Individual or Corporation and this Company may purchase, acquire, hold, manage, deal in, and dispose of Lands or Property, real or personal, in pro indiviso equal or other Shares, or so that such Individual or Corporation shall have a pro indiviso equal or other right along with this Company in the whole or any part of any Lands or Property, real or personal, held by this Company, and in the price obtained for any such Lands or Property by resale or otherwise; or so that this Company may have the same or similar rights in Lands or Property held by such Individual or Corporation and the price thereof.

(*r*) To act as Agent, Factor, Trustee, Administrator, Receiver, Assignee, or Executor for any Corporation, Company, or Individual, on such terms as to Agency and Commission as may be agreed on, in collecting, acquiring, holding, managing, using, dealing in, and disposing of, on account of such Corporation, Company, or Person, any description of property, real or personal, or any right to or interest therein, or in doing all or any of the matters and things mentioned in this Article.

(*s*) Borrowing and taking in loan, on any terms and conditions, any sum or sums of money, in the United Kingdom of Great Britain and Ireland, or in any part of the world, and at any rate or rates of interest that may from time to time be agreed upon, Bonds, Debentures, or Debenture Stock Certificates, or other Deeds of Security, with or without the security or mortgage or pledge of all or any part of the Company's property or assets, or of any calls on Members made or to be made; as also to create and issue Debenture Stock in and applicable to the premises; and also to borrow or receive money on deposit or debenture, or otherwise, or on bonds, bills, acknowledgments, or other documents of debt of the Company, and with or without any security.

(*t*) Purchasing, lending on, holding, selling, and transferring, and also collecting on commission or otherwise, Coupons, Interest, Interest Warrants, Mortgages, Debentures, Bills of Exchange, Promissory Notes, and Securities of any and every kind or description, or other funds at home or in any part of the world, and guaranteeing any such securities.

(*u*) Making and carrying into effect arrangements for amalgamation, either in whole or in part, with any other Company or person, carrying on any business similar to any of the business of this Company, and upon the terms either that this Company, or the Company or person with whom

it shall make the arrangements, or some other Company or person, shall carry on the amalgamated business; or selling to any Company or person all or any part of the Company's business or property; and for all or any of the said purposes, establishing any new Company; and taking Shares or Stock in any such new or other Company, whether fully paid up or not, as partial or entire payment or consideration and holding or selling such Shares or Stock or distributing or allotting them among the Members of this Company.

(*v*) The transacting and doing of all such matters and things as the Company shall from time to time consider conducive or incidental to the above objects, but the Company shall not do anything whereby the limitation of the liability of the members shall be prejudiced.

PROSPECTUS OF THE SCOTTISH NORTHERN INVESTMENT TRUST, LIMITED

This Prospectus has been filed with the Registrar of Joint Stock Companies

The Subscription List will open on Monday, the 27th day of January, 1908, and close on or before Thursday, the 30th day of January, 1908.

THE SCOTTISH NORTHERN INVESTMENT TRUST, LIMITED

(To be incorporated under the Companies Acts, 1862 to 1900)

SHARE CAPITAL, £250,000,
divided into
25,000 Shares of £10 each,

Which are now offered for Subscription at par, payable as follows: £0 10s. 0d. per Share on Application; £2 0s. 0d. on Allotment; £2 10s. 0d. on 1st April, 1908; £2 10s. 0d. on 1st June, 1908; and £2 10s. 0d. on 1st August, 1908.

Subscribers may pay in full on allotment, or at any subsequent date on which a call is due, and interest at the rate of 4 per cent. per annum will be allowed on such payments made in advance of calls.

The Shares forming the Capital of the Company, when fully paid up, are to be converted into Preference and Ordinary Stock, in the proportions of three-fifths of the former and two-fifths of the latter, that is to say, each Share will be converted into £6 of Preference Stock and £4 of Ordinary Stock. The Preference Stock will be entitled to a Cumulative Preferential Dividend at the rate of £4 5s. per cent. per annum, and to priority as to Capital. The Ordinary Stock, subject to provision for Reserve, etc., will be entitled to the remaining profits. At meetings of the Company, holders of Shares will have right to one vote for each Share; and after

the Shares have been converted into Stock, holders of Stock will have right to one vote for each £10 of Preference Stock, and two votes for each £10 of Ordinary Stock.

DIRECTORS

ALEXANDER MILNE OGSTON of Ardoe, near Aberdeen (Messrs. Ogston & Tennant, Limited, Soap Manufacturers, Aberdeen and Glasgow).

GEORGE DAVIDSON of Wellwood, near Aberdeen (Messrs. G. & W. Davidson, Manufacturers, Aberdeen).

WILLIAM SMITH, Advocate in Aberdeen (Managing Director of the North of Scotland Canadian Mortgage Co., Limited).

GEORGE MILNE COOK, Shipowner, 62 Marischal Street, Aberdeen (Messrs. John Cook & Son, Shipowners).

WILLIAM MACKINNON, 75 Union Street, Aberdeen (Messrs. Horne & Mackinnon, Stockbrokers).

SECRETARIES AND SOLICITORS

PAULL & WILLIAMSONS, 230 Union Street, Aberdeen

BANKERS

THE NORTH OF SCOTLAND BANK, LIMITED, Aberdeen, Edinburgh, and Branches

AUDITORS

WHYTE & WILLIAMSON, C.A., 156 Union Street, Aberdeen

REGISTERED OFFICE

230 UNION STREET, ABERDEEN

PROSPECTUS

The main object of the formation of the Company is to acquire and hold the Shares, Stocks or Obligations of other undertakings, and from time to time to vary its investments in these. The advantages obtained by a Company over such investment directly by individuals are numerous and important. The chief of them are: (1) A Company, owing to its larger resources or capital, can hold a much greater variety of investments which, on the principle of average, gives greater safety as to capital and regularity of income; (2) A Board of Directors, consisting of gentlemen of different occupations and varied experience, and having the benefit of expert advice in the different fields of investment, is more likely to select its investments well than is the individual, and to recognise changes of circumstances mak-

ing it expedient to vary investments; (3) From the classification of the Stocks of the Company as after explained, the requirements of different classes of Investors are met by its Debenture, Preference, and Ordinary Stocks; (4) Trouble and responsibility are saved to the individual, while the larger extent of a Company's holding warrants more minute and accurate investigation into the circumstances and prospects of the concerns in which its funds are placed than is generally possible to private investors.

Investment Trusts with similar objects and on corresponding lines have already been formed in Scotland, particularly in Edinburgh and Dundee, and have been very successful. Among them may be noted the following Companies having their headquarters in Edinburgh, namely:

Name of Company	Share Capital	Ordinary or Deferred Shares	Dividend on Ordinary or Deferred Shares, Per Cent.	Present Market Value of £100 of Ordinary or Deferred Stock
British Investment Trust, Ltd.....	£1,500,000	£600,000	9½	£170
Edinburgh Investment Trust, Ltd.	504,000	201,600	10	158
Second Edinburgh Investment Trust, Ltd.....	300,000	100,000	6	131½

and the following having their headquarters in Dundee:

Name of Company	Share Capital	Ordinary or Deferred Shares	Dividend on Ordinary or Deferred Shares, Per Cent.	Present Market Value of £100 of Ordinary or Deferred Stock
First Scottish American Trust, Ltd.	£300,000	£300,000	8⅜	£192
Second Scottish American Trust, Ltd.....	400,000	400,000	8½	195½
Third Scottish American Trust, Ltd.	400,000	400,000	7¾	178½
Northern American Trust, Ltd....	750,000 Exclusive of recent new issue.	300,000	10	190

All the above Edinburgh Companies and the last-mentioned Dundee Company have issued Debenture Stock generally to an amount equal to their Share Capital, and these Companies have divided their Share Capital into two denominations of Preferred and Ordinary or Deferred Stock as this Company will do. Few investments have maintained their capital value during the last few years as these Debenture and Preference Stocks have done, and they form very eligible securities for those requiring a steady and non-fluctuating return of fair amount. The Deferred or Ordinary Stock, while necessarily less assured, affords a prospect of a good return with increase of capital value, as is evidenced by the above table.

Much of the success of such a Company depends on its being formed at an opportune time, and it is generally conceded that a time like the present, occurring after a period of exceptional money stringency, with consequent depreciation of most securities, is a singularly appropriate one for acquiring investments in well-established undertakings.

It is provided by the Articles of Association that not more than 5 per cent. of the combined Share and Loan Capital of the Company may be invested in any one undertaking. The Directors believe that by adopting a wide range of investment the stability of the Company will be best assured.

While the powers of the Company allow the Directors latitude with regard to the locality and class of investment, it is their intention, while not neglecting any suitable openings at home and abroad, to utilize a considerable portion of the Company's capital in the purchase of Bonds, Obligations, and Lien or Preferred Stocks of Companies, and particularly of Railway Companies, in America, where they believe good purchases may at the present time be effected owing to the existing financial stringency. To advise them in regard to this, the Directors propose to avail themselves of the best skilled advice.

The borrowing powers of the Company on Debenture Stock, Debenture, or Deposit Receipt are limited to the amount of the subscribed and paid-up capital at the time. It is the Directors' intention to issue Debenture Stock as opportunity offers.

No promotion money has been, or will be, paid, and none of the Shares have been under-written.

The preliminary expense, including stamp duty, registration fees, legal expenses, printing, issuing, and advertising this Prospectus, and printing, stamping, and issuing the allotment letters, but excluding brokerage, are estimated at about £1,500, which will be paid by the Company. A brokerage of one shilling and sixpence per Share will in addition be paid on all Shares allotted on application forms bearing the distinctive marks of brokers or agents.

The Articles of Association provide that every Director shall hold at least 100 Shares, or after the Shares shall have been converted into stock, £1000 nominal of stock, whereof at least £400 shall be Ordinary.

With regard to the Directors' remuneration, it is provided that they shall be entitled to receive yearly among them a sum of £300 and if and when the subscribed share and loan capital and accumulated reserves of the Company exceed £200,000, a further sum equal to one-tenth of one per cent. upon such excess. In the event of any Director being called upon to perform special services over and above his ordinary duties as a Director, or to go abroad on the business of the Company, the Board may pay him such remuneration as they may think proper.

It is the intention to apply to the Scottish Exchanges for an official Stock Exchange quotation.

A print of the Memorandum and Articles of Association may be seen at the Office of the Company, at any time between 10 a.m. and 4 p.m., while the subscription list is open.

Applications for Shares may be made on the accompanying form, and forwarded, together with the amount payable on application, namely, 10s. per Share, to the Bankers of the Company at their Head Office or Branches.

If no allotment is made the application money will be returned in full.

Prospectuses and Application Forms may be obtained from the Bankers and at the Office of the Company.

Having regard to the provisions of Section 4 of the Companies Act, 1900, the minimum Subscription is fixed by the Articles of Association at 5,000 Shares, but the Directors reserve power to decline to allot unless what they consider to be a sufficient Subscription is obtained.

A copy of the Company's Memorandum of Association is annexed to, and forms part of, this Prospectus.

Dated 24th January, 1908.

THE GLOBE TELEGRAPH AND TRUST COMPANY, LIMITED

Report of Proceedings

At the Fifty-second Ordinary General Meeting, 23rd June, 1925

The Chairman, in opening the proceedings, said: I will ask the Secretary to read the notice convening the ordinary general meeting.

The Secretary (Mr. H. J. B. Burke) having read the notice convening the meeting.

The Chairman: I will now ask the Secretary to read the auditors' report.

The Secretary thereupon read the report of Messrs. Deloitte, Plender, Griffiths and Co., as appended to the balance sheet.

The Chairman: Is it your pleasure that I sign the minutes of the last general meeting? (Agreed.) The minutes were then signed by the Chairman, who then said:

LADIES AND GENTLEMEN:

The Report and Accounts have been in your hands for some days, and I assume you will as usual take them as read.

I will therefore deal briefly with the figures which, I am sure, you will agree, are once more very satisfactory.

Our Gross Receipts for the twelve months ended 31st May last amounted, as shown on page nine of the Report, to £347,845, against for the preceding year £347,343 or an increase of £502.

The Net Income brought down, after deduction of Working Expenses, amounts to £336,715, making with the balance brought forward from 1924 of £49,577 a total of £386,293 as compared with £381,194 last year, or an increase of £5,098.

From these receipts, we have already paid to our Preference shareholders, the three usual quarterly Dividends of 3s. per share, less Income Tax, and to our Ordinary Shareholders we have paid three interim Dividends of 5s. per share, net.

These distributions have absorbed the sum of £239,712, and after placing the sum of £15,000 to Reserve for Contingencies your Directors now recommend a Final Dividend of 3s. per share on the Preference shares, making 6 per cent. less Tax for the year, and of 5s. per share on the Ordinary shares, making with previous distributions, a total Dividend for the year on the Ordinary shares of 10 per cent., which will absorb the sum of £80,358, and enable us to carry forward a balance of £15,221 to the next account.

The receipts from our holdings in the American Companies are less, owing to the appreciation which has taken place in the £, but as the latter has now practically reached par, we need not fear much decrease in the yield in the future.

We have, of course, benefited very considerably in the past when the dollar value was so high.

Our income from the Submarine Cables' Trust of course diminishes every year, as a portion of the 6 per cent. Bonds of that Company are drawn every May, but we retain the Coupons of Reversion. This year we had 56 drawn; but these decreases are made up by the income from the re-investment of the amount received for the drawn bonds, and by the increased receipts from the Direct Spanish and Great Northern, and the bonus of 1½ per cent. paid by the Indo-European Telegraph Company, and the net result of these small increases and decreases is that as compared with last year, our Revenue shows the slight increase already mentioned.

The amount received from the Submarine Cables' Trust for the Bonds drawn this year, appears in our investment on Capital Account on pages six and seven, of £12,100 Commercial Cable Company's 4 per cent. 500 year Debenture Stock purchased to which is added a small balance we had over on Capital Account last year.

The Commercial Cable Company, as you are probably aware, is part of

the Mackay Companies' system, and while the yield is not so good as that received from the Submarine Cables' Trust, your Directors are satisfied that the Stock purchased is a sound investment with a good prospect of appreciation in the future.

National War Loan

The adjustment of this investment between Capital and Revenue has now been made, and the amount shown on pages six and seven, of £49,551, represents the balance due to Capital Account of the money received in 1923 on the winding up of the Direct United States Cable Company. The balance of £38,749 belonging to Revenue Account appears on page eleven of the Report under Temporary Investments, and the interest thereon is shown on page nine under "Interest on Deposits, etc."

You will notice that the French Telegraph Company does not appear in our Report this year. We have shown for many years, a holding of 20 £20 shares in the French Telegraph Co. (Paris to New York) at a cost of £121 13s. 6d.

These shares were acquired in 1880, at the time of the Atlantic rate war, in order that the Board might be kept fully aware of all developments. The Company has a very chequered career, has not paid a Dividend since 1887, and went into liquidation some years ago, with liabilities exceeding the assets, and as we were advised that the shares are now worthless, your Board decided to write off this investment, and the sum of £121 13s. 6d. has accordingly been placed to "Difference on Securities Realized."

The Accounts set out the details of the year's working so clearly, that there is no need to trouble you with many figures, but you will I am sure agree that the result is very satisfactory.

We have again this year been able to put a considerable sum to Reserve out of surplus Dividend Revenue, which Reserve now amounts to £105,000, after meeting the Preference Dividend and paying the Ordinary Dividend of 10 per cent. free of Tax for the sixth year in succession.

The invested Reserve Funds of the Cable Companies comprising your holding, now amount to a large figure. They are in a very strong financial position, and able, therefore, to provide any new cables required should the state of trade necessitate further telegraphic developments.

This is quite apart from the Reserve Funds of the American Companies in which we also have substantial holdings.

There is just one other item I usually give to the Shareholders, and that is that the value of our holdings at 31st May last shows an appreciation over cost of £2,167,881.

Before putting the Resolution to the Meeting, I shall be pleased to answer any questions, or to give any information desired.

Mr. E. C. Humphreys:—Mr. Chairman, Ladies and Gentlemen:—It is very satisfactory to see that the net revenue for the year exceeds that of the

previous twelve months by £434, and I think it shows that the Companies from which we derive our income are holding up well against every competition. From what the Chairman has said about the Certificates of the Submarine Cables' Trust, I take it that in three or four years from this date, the Trust will be wound up, and we shall come into possession of the reserves, or rather the reversionary interest. The Chairman has told us that the proceeds so far have been invested in £12,100 of four per cent. Debentures in the Commercial Cable Company, and I am sure no one could better appraise the value of cable investments than the Directors.

I have read the speech of the Chairman at a recent meeting and was very much pleased to gather that he retains his confidence in cables as against "wireless." Since then, the Postmaster-General in addressing the Sheffield Chamber of Commerce, had seemed to imply that the Government, if not in open competition with the Cables, was rather assisting, or favouring, wireless. On the other hand, the Western Union which has laid a new cable from the United States to this country, expect it to revolutionise cable transmissions. However that may be, I am sure that the shareholders will be unanimous in supporting the re-election of the Chairman to-day, and in expressing their hope that he will occupy the Chair for many years to come.

The resolution was then put to the Meeting, and carried unanimously.

On the motion of Sir Robert M. Kindersley, G.B.E., seconded by J. C. Denison-Pender, the retiring Director, Sir John Denison-Pender, G.B.E., K.C.M.G., was unanimously re-elected.

The CHAIRMAN: Will some Shareholder now propose the Auditors?

Mr. E. C. HUMPHREYS: I have much pleasure in proposing that Messrs. Deloitte, Plender, Griffiths and Co., be, and they are, hereby elected Auditors for the current year at a remuneration of 50 guineas.

Mr. A. C. AMOORE. I have much pleasure in seconding that.

The resolution was passed unanimously.

The CHAIRMAN: Ladies and Gentlemen, that completes our business for to-day.

Mr. E. C. HUMPHREYS: Ladies and Gentlemen, before we leave, I shall have much pleasure in proposing a vote of thanks to yourself, Mr. Chairman, and the Board for your successful management of our affairs, and also to the Staff for their good services to the Company.

Sir WILLIAM PLENDER: Mr. Chairman, I should like to second that and take the opportunity, also, of recording my appreciation of the services which have been rendered by the Directors to this Company. I have been Auditor now for very many years, and probably no man is better able to judge than I am of their devotion to the Company's affairs. I think the shareholders are to be congratulated on the Board of Directors which they possess.

The vote of thanks was unanimously accorded, and the Chairman having acknowledged the compliment, the proceedings terminated.

APPENDIX B

THE AMERICAN INVESTMENT TRUST

DECLARATION OF TRUST, OLD COLONY INVESTMENT TRUST

THIS DECLARATION OF TRUST made at Boston, Mass., the 14th day of January 1927 by Francis R. Hart of Boston, Philip Stockton of Manchester, T. Jefferson Coolidge of Manchester, Edwin R. Marshall of Brookline and F. Winchester Denio of Lincoln, all in the Commonwealth of Massachusetts (hereinafter called the Trustees which expression shall extend to and include the trustees for the time being of these presents and the word Trustee shall apply to any one of the said trustees where the context so admits).

WHEREAS certain moneys and other personal property have been acquired by the Trustees by means of contributions made to them for that purpose by certain persons (hereinafter called the Contributors).

NOW THEREFORE the Trustees hereby declare that they hold all the said moneys and personal property, and shall hold all other property and effects at any time vested in them for the purposes of these presents (hereinafter called the trust premises) *in trust* to manage the same and to receive the income thereof and accretions thereto for the benefit of the beneficiaries of the Trust for the time being (hereinafter called the Shareholders) according to the number and kind of shares hereinafter mentioned held by them respectively and with and subject to the powers and provisions hereinafter contained concerning the same.

THE TRUSTEES

1. All the property and effects for the time being subject to any of the trusts of these presents shall be transferred to and vested in the Trustees as joint tenants.

2. The Trustees shall have powers subject to the limitations and conditions of these presents from time to time:

(*a*) To invest and reinvest the trust premises including any surplus or reserve and income in stocks, bonds, notes, certificates of indebtedness, debentures, mortgages, bank acceptances, certificates of interest and securities and obligations of whatever character whether issued by the United States of America or by any of the several states or territories

or any political sub-divisions or agencies thereof, or by a foreign government or political sub-division thereof, or by a corporation, voluntary association, trust, partnership or other organization whether domestic or foreign, or by individuals, it being the intent that the Trustees shall have complete freedom in the choice of investments and re-investments. No investment or reinvestment shall be deemed improper because of its speculative character or because a greater proportion of the trust is invested therein than is usual for Trustees, or by reason of any interest, direct or indirect, which any Trustee or any contributor or Shareholder or Depositary or Old Colony Trust Company or Old Colony Corporation or any subsidiary or affiliated interest, either individually or in any representative or fiduciary capacity may have therein, or by reason of any profit which they or any of them may make therefrom. Old Colony Trust Company and Old Colony Corporation and any subsidiary or affiliated interest and any Trustee may buy from the Trust and sell to others, any shares, debentures and obligations of the Trust in all respects as if no fiduciary relation existed, and no such transaction shall be considered improper whether or not any profit is received.

(*b*) To sell, exchange or otherwise dispose of the trust premises or any part thereof free and clear from all the provisions of this trust, for such consideration whether money, securities or other property as they may see fit, and to reinvest the proceeds thereof, or any part thereof, and so to invest and reinvest during the existence of the Trust.

(*c*) To pay any or all taxes or any liens or assessments of whatsoever nature or kind, imposed upon or against the trust premises or any part thereof or imposed upon the Trustees hereunder.

(*d*) To make distributions out of the receipts from or accretions to the trust premises among the Shareholders according to the number and kind of shares held by them respectively at such times as the Trustees may fix after making such reservations as in their sole judgment are desirable. And the Shareholders shall have no right to any distributions except when and as declared by the Trustees.

(*e*) To borrow money from Old Colony Trust Company or elsewhere for the purposes of the trust with or without collateral security, on such terms as the Trustees in their uncontrolled discretion may deem desirable, and to give proper securities or evidences for the moneys so borrowed, which may mature at a time or times beyond the possible termination of this Trust or at any earlier time or times, and to pledge, mortgage, charge, or hypothecate, or otherwise encumber all or any part of the trust premises as security for a loan or loans.

(*f*) To engage in and to prosecute, compound, compromise, abandon, or adjust, by arbitration, or otherwise, any actions, suits, proceedings, disputes, claims, demands, and things relating to the trust premises, and out of the trust premises to pay or to satisfy, any debts, claims, or expenses incurred in connection therewith, including those of litigation,

upon any evidence that the Trustees may deem sufficient. The powers aforesaid are to include any actions, suits, proceedings, disputes, claims, demands and things relating to the trust premises wherein the Trustees may be named individually, but the subject matter of which arises by reason of the trust premises and their trusteeship thereof.

(*g*) To buy or join with any person or persons in buying the property of any corporation, association, or other organization any of the securities of which are included in the trust premises, or any property in which the Trustees, as such shall have or may hereafter acquire an interest, and to allow the title to any property so bought to be taken in the name or names of, and to be held by, such person or persons as the Trustees shall name or approve.

(*h*) To carry the investments of the Trust in their own names individually or otherwise or in the name or names of nominees without disclosing any trust.

(*i*) To employ such agents as they shall think proper for the sale or management of the trust premises or any part thereof, or in conducting the business of the Trust without the Trustees being answerable for the acts and defaults of such agents.

(*j*) To enter into arrangements expressed in writing for any of the purposes hereinbefore mentioned that the payment of any sum of money or the performance of anything that shall have been agreed upon shall be a floating charge upon the said undertaking and the real and personal property for the time being subject to the trusts of these presents in such manner that the Trustees notwithstanding such charge may continue to carry on the said trusts and deal with the said real and personal property by way of sale, mortgage, charge, lease or otherwise or making distributions thereof in accordance with the trusts hereof, and that the Trustees shall not be liable for the payment of any such sum of money or for damages for non-performance of anything that shall have been agreed upon except out of the trust premises and only so far as the same shall be sufficient for the purpose, and that no Trustee shall be in any way liable in respect thereof after he ceases to be a Trustee of these presents, and every such floating charge shall rank *pari passu* with every other such floating charge unless otherwise specially agreed. And any agreement entered into in pursuance of these presents in the name of *Old Colony Investment Trust* shall without any express provisions to that effect operate as an arrangement with the Trustees for such a floating charge as above mentioned, and words may be added to any document containing or relating to any such agreement or any part thereof to the effect that contracts made in that name operate as a floating charge created by the Trustees upon all the property comprised in these presents as herein provided, and that the Trustees are not liable upon any such contract except for the application of such property in accord-

ance with the provisions hereof and that no liability attaches to the Shareholders.

(*k*) In all matters and respects to sell, convey, and generally to deal with the trust premises and to manage and conduct the Trust hereby created (including the giving or furnishing proxies for voting at meetings in respect of any shares of stock, bonds, or other security at any time included in the trust estate), as fully as if the Trustees were the absolute owners of the trust premises, and to execute any and all instruments and to do any and all things incidental to said Trust not inconsistent with the provisions hereof, the execution or performance of which the Trustees may deem expedient.

But the Trustees shall not have any power or authority to borrow money on the credit or on behalf of the Shareholders personally, or to make any contract binding the Shareholders personally for repayment of any money raised by mortgage, pledge, or charge in pursuance of the provisions hereof, or to make any contract or incur any liability whatever on behalf of the Shareholders binding them personally. And every contract or instrument made or executed by the Trustees creating any obligation shall contain an express statement that the Trustees are not liable thereon except for the application of the trust premises in accordance with the provisions hereof and that no liability attaches to the Shareholders. Nothing herein contained shall be deemed to constitute the Trustees or the Shareholders partners, and it is expressly declared that a trust and not a partnership is hereby created, and that it is not intended hereby to create an association.

3. All the real estate comprised in these presents or at any time hereafter acquired by or conveyed to the Trustees for any of the purposes of the said Trusts shall be held by the Trustees or Trustee for the time being of these presents and their heirs and assigns upon trust to sell or convert the same with all the powers in that behalf of an absolute owner and out of the proceeds of such sale or conversion to pay the expenses incurred in such sale or conversion and to hold the rest of the said proceeds and the net rents and profits of the said real estate until the same shall be sold upon the trusts and subject to the powers and provisions concerning the same contained in this indenture.

4. The Trustees shall receive no remuneration for the services rendered by them in connection with the trusts hereof.

5. Any Trustee hereunder may resign at any time by a written notice to that effect given to the remaining Trustees. Upon the declination, death, resignation, removal, or disability determined by the other Trustees, of any of the Trustees, or in case a vacancy shall for any other reason exist, the remaining Trustee or Trustees shall fill such vacancy by appointing such other person or corporation as they in their discretion shall see fit, subject, however, to the approval of the Executive Committee of Old Colony Trust

Company. As soon as any Trustee so appointed and approved shall have accepted this trust, a duplicate original of his acceptance, and a copy of the vote of said Executive Committee approving the appointment, shall be deposited with the Depositary and thereupon title to the trust premises shall vest in such Trustee as joint tenant with the continuing Trustees without any further act or conveyance.

6. The receipts of the Trustees or either or any of them for moneys or things paid or delivered to them or him shall be effectual discharges to the persons paying or delivering the same therefrom and no person from whom the Trustees shall receive any money, property or other credit shall be required to see to the application thereof. And no purchaser or person dealing with the Trustees shall be bound to ascertain or inquire as to the existence or occurrence of any event or purpose in or for which a sale, mortgage, pledge, or charge is herein authorized or directed or otherwise as to the purpose of regularity of any of the acts of the Trustees, or any of them purporting to be done in pursuance of any of the provisions or powers herein contained or as to the regularity of the discharge, resignation, or appointment of any Trustee. And no purchaser or person dealing with any Trustee purporting to act during the absence of any other Trustee or under any delegation of authority from any other Trustee shall be concerned to ascertain or inquire whether an occasion exists in which he is authorized so to act or in which such delegation is permitted or whether such delegated authority is still subsisting.

7. The Trustees shall not be liable for anything done or omitted by them in good faith, and shall be answerable and accountable only for their own acts, receipts, neglects, and wilful defaults respectively, and not for those of each other or any agent employed by them, nor for any bank, trust company, broker, or other person with whom or into whose hands any moneys or securities may be deposited or come, nor for any defect in title of any property acquired, nor for making or retaining any investment, nor for any loss unless it shall happen through their own wilful default respectively, and they shall be entitled to indemnity out of the trust premises against any liability incurred in the execution of the terms or provisions hereof. The Trustees shall be entitled to advice of counsel at the expense of the Trust and shall not be liable for any action taken or omitted in good faith on the advice of counsel. And no Trustee however appointed shall be obliged to give any bond or surety or other security for the performance of any of his duties in the said trusts.

8. Such distributions as the Trustees may make from time to time to the Shareholders may be made from any accretions to the trust property, whether such accretions are usually deemed principal or income and the Trustees shall not be required to keep acccounts showing separation of the trust property as between principal and income.

9. The Trustees shall not be required to render an account to the Shareholders oftener than once a year, and such accounts may be in the form of

a balance sheet and a statement of earnings of the Trust as shown by the books. The books of the Trust, however, shall be available to the Shareholders for inspection by any Shareholder acting in good faith for the interests of the Trust or for his own interest in relation thereto.

10. The Trustees may act with or without a meeting, and by proxy given within six months of the date of any action taken thereunder, and the action of a majority of the Trustees shall be valid and binding as the action of the Trustees and all leases, contracts, and other documents, except conveyances of lands, executed personally by any two of the Trustees hereunder shall be valid and as effectual and binding as if executed by all the Trustees. And any Trustee may by power of attorney empower any other Trustee to execute in his name and on his behalf any and all documents, including conveyances of lands, for any of the purposes of these presents without being responsible for loss. The Trustees shall keep such records of their proceedings as they may deem advisable.

Duration of the Trust

11. The trusts contained in these presents shall continue in such manner that the Trustees shall have all the powers and discretions expressed to be given to them respectively by these presents, and that no Shareholder shall be entitled to put an end to the same or to require a division of the trust premises or any part thereof until the expiration of 21 years from the death of the last survivor of the said Francis R. Hart, Philip Stockton, T. Jefferson Coolidge, Edwin R. Marshall and F. Winchester Denio and the children now living of any of them. The power, however, is hereby expressly vested in the Trustees in their discretion to terminate this Trust at an earlier date by an instrument in writing, setting forth such termination, signed by a majority of the Trustees and delivered to the Depositary hereunder, and by a notice to Shareholders mailed by ordinary mail to their addresses as shown by the books of the Registrar.

12. Upon termination of this Trust either by expiration or otherwise the Trustees may

(*a*) convey the trust premises to new or other Trustees or to a corporation on first being indemnified to their satisfaction against outstanding liabilities accrued or contingent, and upon the execution of releases satisfactory to the Trustees may distribute the net proceeds in kind at valuations fixed by the Trustees, among the Shareholders ratably according to the number and kind of shares held by them respectively, or may in their discretion, turn such proceeds received into money for the purpose of such distribution, or may distribute part in kind and part in money, or

(*b*) may sell and convert into money the whole of the trust premises and after payment of all proper charges and debts of the trust, and upon

receipt of such releases and indemnity, if any, as the Trustees may deem necessary for their protection, shall distribute the net proceeds among the Shareholders ratably according to the number and kind of shares held by them respectively.

Upon any such final distribution this Trust shall terminate and the Trustees shall be discharged from any and all further liabilities and duties hereunder and the right, title and interest of all parties shall cease and be cancelled and discharged.

Indemnity of Trustees

13. The Trustees shall be entitled to indemnity out of the trust premises against any and all liability incurred by them or any of them in respect of the premises. But the Trustees or any of them shall not be entitled to look to the Shareholders personally for indemnity against any liability incurred by them or any of them in the execution hereof or to call upon the Shareholders for the payment of any sum of money or any assessment whatever.

Shares and Shareholders

14. The Trustees shall issue to or upon the order of the contributors according to their contributions shares representing their beneficial interest in the trust premises, and the determination of the Trustees as to the amount and kind of shares to be issued to or upon the order of each Contributor accordingly shall be final. Shares may be issued with or without par value and may be of such class or classes having such preferences or such restrictions and limitations as the Trustees may determine at the time of issue.

Shares in addition to those above mentioned may be issued by the Trustees from time to time as the needs of the Trust may in their judgment require, for such price or other consideration as the Trustees may deem proper. Such shares need not be offered to the holders of the outstanding shares.

Such new shares may in the discretion of the Trustees be of the same class as any shares previously issued or may be of a different class or classes with any right of preference or with any other special privilege or advantage or with any deferred rights as compared with any shares previously issued or then about to be issued.

15. The shares issued by the Trustees hereunder or the proceeds thereof may be applied by them to the payment or discharge of any expenses or obligations incurred or assumed by them in connection with the acquisition of the trust premises, to the acquisition of additional property, or to any other objects deemed by them to be beneficial to the Trust.

16. A register or registers shall be kept by or under the direction of the Trustees which shall contain the names and addresses of the Shareholders and the number of shares held by them respectively and of all future transfers thereof. No Shareholder shall be entitled to have any notice given to him as herein provided until he has given his address to the Trustees to be entered in the register.

17. Every Shareholder shall be entitled to receive from the Trustees a certificate signed by two Trustees in such form as the Trustees may approve specifying the number and kind of shares held by him, and every certificate of shares shall be registered in the said register or registers.

18. This Declaration of Trust shall be deposited with a Depositary appointed by the Trustees which shall be a trust company or national bank doing business in Massachusetts, which Depositary shall also be appointed Registrar of all certificates for shares which may be issued hereunder and no such certificate shall be countersigned by such Registrar until this declaration of trust is deposited with it and no such certificate shall be valid until countersigned by such Registrar. The Depositary and Registrar may resign at any time by a writing to that effect delivered to the Trustees, which shall take effect upon such delivery, and thereupon the Trustees shall appoint another trust company or national bank doing business in Massachusetts to serve as Depositary.

19. In the first instance the Old Colony Trust Company is hereby appointed Depositary and Registrar by the execution of this Declaration of Trust.

20. Every transfer of any share (otherwise than by operation of law) shall be in writing under the hand of the transferor and, upon delivery thereof with the existing certificate for such share to the Trustees, shall be recorded in the register, and a new certificate therefor shall be given to the transferee, and in case of a transfer of only a part of the shares mentioned in any certificate a new certificate for the residue thereof shall be given to the transferor. Until the transfer shall be so delivered and recorded, the transferor shall be deemed to be the holder of the share or shares comprised therein for all the purposes hereof, and the Trustees shall not be affected by any notice of the transfer.

21. In case of the loss or destruction of any certificate for shares, the Trustee may under such terms as they deem expedient, issue a new certificate or certificates in place of the one so lost or destroyed.

22. Any person becoming entitled to any share in consequence of the death, bankruptcy, or insolvency of any Shareholder or in any way other than by a transfer in accordance with paragraph 20 hereof shall be recorded in the register as the holder of the said share and receive a new certificate for the same upon production of the proper evidence thereof and delivery of the existing certificate to the Trustees or their transfer agent or Registrar.

23. Two or more persons holding any share shall be joint tenants of

the entire interest therein, and no entry shall be made in the register or in any certificate that any person is entitled to any future, limited, or contingent interest in any share. But any person registered as the holder of any share may, subject to the provisions hereinafter contained, be described therein as a trustee of any kind, and any words may be added to the description to identify the trust.

24. The Trustees shall not, nor shall the Shareholders or any Registrar or other agent of the Trustees, be bound to take notice or be affected by notice of any trust whether express, implied, or constructive or any charge or equity to which any of the said shares or the interests of any of the Shareholders in the trusts of these presents may be subject, or to ascertain or inquire whether any sale or transfer of any such share or interest by any such Shareholder or his personal representatives is authorized by such trust, charge, or equity, or to recognize any person as having any interest therein except the persons registered as such shareholders. And the receipt of the person in whose name any share is registered or, if such share is registered in the names of more than one person, the receipt of any one of such persons shall be a sufficient discharge for all distributions and other moneys payable in respect of such share and from all liability to see to the application thereof.

25. Every notice to the Shareholders required or provided for in these presents may be given to them personally or by sending it to them through the postoffice in a prepaid letter addressed to each of them respectively at his address specified in the register and shall be deemed to have been given at the time when it is posted. But in respect of any share held jointly by several persons notice so given to whichever of them is first named in the register shall be sufficient notice to all of them. And any notice so sent to the registered address of any Shareholder shall be deemed to have been duly sent in respect of any such share whether held by him solely or jointly with others notwithstanding he be then deceased and whether the Trustees or any person sending such notice have knowledge or not of his death until some other person or persons shall be registered as holders. And the certificate of the person or persons giving such notice shall be sufficient evidence thereof and shall protect all persons acting in good faith in reliance on such certificate.

Miscellaneous Provisions

26. The Trust provided for in these presents may be designated for all the purposes thereof as the *"Old Colony Investment Trust"* and under that name so far as practicable all the affairs of the Trust may be conducted by the Trustees. The Trustees may be referred to as the *Trustees of the Old Colony Investment Trust.*

27. In the construction of these presents words in the singular number include the plural number and *vice versa,* and words denoting males include

females, and words denoting persons include firms, associations, and corporations unless a contrary intention is to be inferred from the subject-matter or context. Until certificates for shares shall have been issued by the Trustees as herein provided, the *Contributors* shall be the beneficiaries of the Trust hereby created pro rata according to the amount of their respective Contributions, and until that time the term *"Shareholders"* shall be deemed to extend to and include the *Contributors* unless the context requires some other interpretation.

28. This instrument is executed and delivered by the Trustees in the Commonwealth of Massachusetts and with reference to the laws thereof, all rights and duties in relation thereto and the construction and effect thereof shall be subject to and be construed according to the laws of said Commonwealth.

29. All property delivered to and accepted by the Trustees for the purposes hereof shall be accepted by the Trustees only within the Commonwealth of Massachusetts.

30. This Trust may be amended by the unanimous action of the Trustees with the consent in writing of the majority in interest of the Shareholders having at the time of such amendment the most deferred rights in the Trust premises, provided, however, that no such amendment shall be made which shall entitle any Shareholder to receive a distribution in kind of the Trust.

31. This instrument is executed in three counterparts, each of which shall be deemed an original.

In Witness Whereof the parties hereto have set their hands and seals at Boston in the Commonwealth of Massachusetts the day and year first above written.

Francis R. Hart.
Philip Stockton.
T. J. Coolidge.
Edwin R. Marshall.
F. Winchester Denio.

Boston,

Old Colony Trust Company, the within named Depositary, hereby certifies that the foregoing is a true copy of the original Declaration of Trust deposited with it and that it has not been amended.

Old Colony Trust Company, *Depositary*

by

Secretary.

EXCERPTS FROM DECLARATION OF TRUST, NEW ENGLAND INVESTMENT TRUST, INC.

THIS AGREEMENT AND DECLARATION OF TRUST dated as of April 16, 1927, made by and between NEW ENGLAND INVESTMENT TRUST, INCORPORATED, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts (hereinafter generally termed "THE DEPOSITOR") party of the first part, and LIBERTY NATIONAL BANK IN NEW YORK, a banking association duly organized under the laws of the United States, and having its principal place of business in the City of New York, in the State of New York (hereinafter generally termed "THE TRUSTEE") party of the second part, and the REGISTERED HOLDERS from time to time, of the certificates (hereinafter sometimes termed "TRUSTEE SHARES") issued and to be issued, hereunder, parties of the third part.

WHEREAS the DEPOSITOR shall acquire the undermentioned shares of the stock of the Companies as enumerated and set forth below (hereinafter generally termed "THE COMPANIES") comprising one unit of one hundred and thirty-two (132) shares.

METALS AND COAL

No. Shares In Unit	*Name of Company*	*Par Value Of Shares*	*Par Value In Unit*
1	American Smelting & Refining Company (Common)	100	100
2	Cerro de Pasco Copper Corporation (Capital)	No Par	200
2	Chile Copper Company (Capital)	25	50
2	Kennecott Copper Corporation (Capital)	No Par	200
2	Calumet & Arizona Mining Company (Common)	10	20
5	Island Creek Coal Company (Common)	1	5

CHAIN STORES

2	Childs Company (Common)	No Par	200
2	Schulte Retail Stores Corporation (Common)	No Par	200

TEXTILES

3	Manhattan Shirt Company	25	75
1	Cluett, Peabody & Company, Incorporated (Common)	No Par	100
2	Belding, Heminway Company	No Par	200
1	American Woolen Company (Preferred)	100	100

No. Shares In Unit	*Name of Company*	*Par Value Of Shares*	*Par Value In Unit*
	Amusements		
1	Paramount Famous Lasky Corporation (Common)	No Par	100
	Sugars		
2	The Cuban-American Sugar Company (Common)	10	20
1	The Great Western Sugar Company (Common)	25	25
	Printing and Paper		
1	American Type Founders Company (Common)	100	100
1	International Paper Company (7% Preferred)	100	100
	Chemicals and Explosives		
2	E. I. duPont deNemours & Company, Incorporated (Common)	No Par	200
2	Household Products, Incorporated (Capital)	No Par	200
2	Atlas Powder Company (Common)	No Par	200
2	Union Carbide & Carbon Corporation (Common)	No Par	200
1	Allied Chemical & Dye Corporation (Common)	No Par	100
4	Texas Gulf Sulphur Company (Capital)	No Par	400
	Building Materials and Paints		
2	The Long-Bell Lumber Corporation (Class A Participating)	No Par	200
2	Certain-teed Products Corporation (Common)	No Par	200
	Machinery and Equipment		
1	Allis-Chalmers Manufacturing Company (Common)	100	100
1	American Locomotive Company (Common)	No Par	100
1	International Harvester Company (Common)	100	100
1	United Shoe Machinery Corporation	25	25
	Typewriters and Photographic Instruments		
2	Underwood Typewriter Company, Incorporated (Common)	25	50
1	Eastman Kodak Company (of New Jersey) (Common)	No Par	100

ADVERTISING

No. Shares In Unit	*Name of Company*	*Par Value Of Shares*	*Par Value In Unit*
2	General Outdoor Advertising Company (Class A)	No Par	200

SHOES

1	Endicott Johnson Corporation (Common)	50	50

RAILROADS

1	Canadian Pacific Railway Company (Ordinary)	100	100
1	New York Central Railroad Company (Capital)	100	100
2	Northern Pacific Railway Company (Capital)	100	200
1	Atchison, Topeka & Santa Fe Railway Company (The) (Common)	100	100
1	Illinois Central Railroad Company (Common)	100	100
2	The Pennsylvania Railroad Company (Common)	50	100
1	Union Pacific Railroad Company (Common)	100	100
1	Louisville & Nashville Railroad Company (Capital)	100	100

PUBLIC UTILITIES

1	Consolidated Gas Company of New York (Common)	No Par	100
2	Hudson & Manhattan Railroad Company (Common)	100	200
1	American Railway Express Company (Capital)	100	100
2	The North American Company (Common)	10	20
4	Pacific Gas & Electric Company (Common)	25	100
3	Public Service Corporation of New Jersey (Common)	No Par	300
1	American Telephone & Telegraph Company (Capital)	100	100
3	Standard Gas & Electric Company	No Par	300
5	Louisville Gas & Electric Company (Class A)	No Par	500
1	Western Union Telegraph Company, The (Capital)	100	100

FOODS

1	Standard Milling Company (Common)	100	100
2	Corn Products Refining Company	25	50

No. Shares In Unit	*Name of Company*	*Par Value Of Shares*	*Par Value In Unit*
1	Swift & Company (Capital)	100	100
2	California Packing Corporation (Common)	No Par	200
2	United Fruit Company (Capital)	No Par	200
	Oils		
1	Pan American Petroleum & Transport Company (Common)	50	50
1	Sinclair Consolidated Oil Corporation (8% Preferred)	100	100
2	The Texas Corporation (Capital)	25	50
2	The Marland Oil Company (Capital)	No Par	200
1	Phillips Petroleum Company	No Par	100
2	Royal Dutch Company (Ordinary "New York")	No Par	200
1	Standard Oil of New Jersey	25	25
2	Pure Oil Company	25	50
	Steels		
1	United States Steel Corporation (Common)	100	100
1	Bethlehem Steel Corporation (7% Preferred)	100	100
1	Sloss-Sheffield Steel & Iron Company (Common)	100	100
2	American Steel Foundries (Common)	No Par	200
	Automobiles		
1	Dodge Bros., Incorporated (Preferred)	No Par	100
1	General Motors Corporation (Common)	No Par	100
2	(The) Studebaker Corporation (Common)	No Par	200
1	Packard Motor Car Company	10	10
	Accessories and Rubbers		
2	The Timken Roller Bearing Company (Capital)	No Par	200
1	United States Rubber Company (8% Preferred)	100	100
1	The B. F. Goodrich Company	No Par	100
1	Stewart-Warner Speedometer Corporation	No Par	100
	Tobaccos		
2	General Cigar Company, Incorporated (Common)	No Par	200
2	P. Lorillard Company (Common)	25	50
1	The American Tobacco Company (Common)	50	50
1	American Snuff Company (Common)	100	100

(hereinafter generally termed "STOCK OF THE COMPANIES") and intends from time to time to acquire additional shares of STOCK OF THE COMPANIES in identical units. And whereas certificates for said STOCK OF THE COMPANIES shall be issued in the name of the Trustee, or its nominee or nominees, and deposited with the Trustee. And whereas "THE DEPOSITOR" desires to issue certificates registered in the name of the holder thereof duly certified by the Trustee in respect of said STOCK OF THE COMPANIES as hereinafter provided in the following form, or substantially the following form, to wit:—

Certificate No.....Number of Shares.....

NEW ENGLAND INVESTMENT TRUST
INCORPORATED

(Incorporated under the Laws of the Commonwealth of Massachusetts)

REGISTERED CERTIFICATE

Collateral Trustee Shares: Representing Stock of the Undermentioned Companies.

LIBERTY NATIONAL BANK IN NEW YORK, TRUSTEE

THIS IS TO CERTIFY that....., the registered holder hereof, is the owner of.....Collateral Trustee Shares, each of the par value of Ten Dollars, each of such Collateral Trustee Shares being fully paid and non-assessable and each of such Collateral Trustee Shares representing a 1/1000 interest in one unit of one hundred and thirty-two (132) shares, all of which shares are specifically set out on the back hereof (herinafter called "THE COMPANIES") the same having been deposited with the Trustee herein in trust for the Registered Holder hereof in accordance with the terms of an AGREEMENT AND DECLARATION OF TRUST dated as of April 16, 1927, made between NEW ENGLAND INVESTMENT TRUST INCORPORATED, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts (herein called "THE DEPOSITOR") and LIBERTY NATIONAL BANK IN NEW YORK, a banking association duly organized under the laws of the United States and having its principal place of business in the City and State of New York, as TRUSTEE (herein called "THE TRUSTEE") and the Registered Holders from time to time of the Certificates issued and to be issued under said AGREEMENT AND DECLARATION OF TRUST, and such AGREEMENT AND DECLARATION OF TRUST constitutes part of this certificate, and the terms, conditions and provisions of said AGREEMENT AND

DECLARATION OF TRUST are assented to by, and shall in all respects govern, the respective rights and stipulations of all parties hereto, including Registered Holders of this Certificate.

The said Certificates may bear the name and be known as Collateral Trustee Shares or Participating Shares or Ordinary Shares, or by such other name or title as the Depositor and the Trustee may determine.

The Trustee until the surrender of this Certificate or until the termination of said AGREEMENT AND DECLARATION OF TRUST will pay to the Registered Holder hereof on July 31st and January 31st in each year, the dividends then payable hereon upon the following conditions:—

(*a*) The Trustee shall first deduct therefrom all taxes or Government charges thereon, if any, required to be retained or deducted therefrom by the Trustee under any present or future Law of the United States of America, or any state, Municipality, or any other taxing authorities in said Country.

(*b*) Payments will be made by check in funds current at the New York Clearing House mailed to the Registered Holder hereof at the address appearing on the books of the Trustee on the days above specified.

The said dividends shall be the proportionate part represented by the Certificate of all dividends received by the Trustee in respect of the stock deposited under said AGREEMENT AND DECLARATION OF TRUST during the six months ending respectively June 30th and December 31st in each year immediately preceding each dividend payment day; viz:

(*a*) All cash dividends received by the Trustee in respect of said Stock deposited under said AGREEMENT AND DECLARATION OF TRUST.

(*b*) All net cash proceeds from the sale of any stock dividends as defined in said AGREEMENT AND DECLARATION OF TRUST received by the Trustee in respect of any of said Stock deposited under said AGREEMENT AND DECLARATION OF TRUST. Any Stock dividends not sold by the Trustee as provided in said AGREEMENT AND DECLARATION OF TRUST shall be accumulated and thereafter sold as soon as may be and the proceeds of the sale shall be distributed by the Trustee to the Registered Holders of these certificates on the next dividend payment date after such sale.

Until the termination of said AGREEMENT AND DECLARATION OF TRUST as therein provided or within three months thereafter, the Registered Holder of this Certificate, upon surrender thereof with other like Certificates, representing in the aggregate one thousand (1000) Collateral Trustee Shares, all in proper form, for transfer and upon payment in cash to the Trustee of the amount required to pay any Government and stamp duties

and other taxes of any kind, and all transfer fees and charges of any kind, including the fee of the Trustee, if any, in connection therewith, is entitled to receive Certificates for all of the Shares of the Stocks deposited with the Trustee, then constituting a unit, in the manner provided in said AGREEMENT AND DECLARATION OF TRUST, upon giving to the Trustee at its office in the said City, three full business days' notice in writing (except, however, as modified by Article 4 Section 3 of the AGREEMENT AND DECLARATION OF TRUST herein referred to), of the intention of said Registered Holder to surrender said Certificates as provided in said AGREEMENT AND DECLARATION OF TRUST. After three months after the termination of said AGREEMENT AND DECLARATION OF TRUST, the Registered Holder of this Certificate shall only be entitled to receive, upon surrender thereof, in the proper form for transfer, a pro rata share of the net proceeds of the sale of any securities then remaining in the hands of the Trustee as provided in said AGREEMENT AND DECLARATION OF TRUST.

If at any time any Company, any of whose Stock is held by the Trustee under said AGREEMENT AND DECLARATION OF TRUST shall liquidate voluntarily or otherwise, or have a Receiver appointed for a substantial portion of its property and such Receivership shall continue for sixty days without any Court proceedings having been instituted for the discharge of said Receiver, or shall fail for one year to pay any dividend on such stock, or if at any time the Depositor shall receive information, that in its opinion would warrant the conclusion that dividends will cease either temporarily or permanently to be paid in cash on its stock by any such Company, or that such stock will become substantially impaired in value, then the Depositor shall have the right, but not the obligation, in accordance with its sole discretion and judgment (subject always to the limitation mentioned below) to sell such stock, and either to reinvest the proceeds or any part thereof in the purchase of stock, of the same class as already included under said AGREEMENT AND DECLARATION OF TRUST, or of any one or more of the other Companies enumerated herein, or in the shares of financially sound Corporations which have a record of the payment of dividends for no less than the preceding five (5) consecutive years, or to pay such proceeds or any balance thereof to the Trustee; and all such additional stock purchased, and such balance of cash proceeds shall be held by the Trustee for and on behalf of the Registered Holders of Collateral Trustee Shares. The Trustee shall hold any such balance of cash until the next dividend payment day, and shall then distribute the same as a dividend ratably to the Registered Holders of Collateral Trustee Shares. Thereafter the units of stock to be deposited under said AGREEMENT AND DECLARATION OF TRUST shall be as thereinbefore set forth, excluding, however, the stock of any Company whose stock has been sold as aforesaid, but including any additional stock purchased as aforesaid, and the number of Collateral Trustee Shares to be issued against each unit shall be precisely the same number as thereinbefore set forth. The right conferred upon the Depositor under this Article shall be and hereby is limited as follows:—

In the event of either (*a*) the stock of twenty of the said Companies being sold under the said provisions, and/or (*b*) the par value of Stock sold totalling twenty per cent (20%) of the total par value of the Stocks deposited under said AGREEMENT AND DECLARATION OF TRUST, and as calculated therein, and if the proceeds of such sale shall not have been reinvested as herein provided, then in either of these events the said right of the Depositor shall cease to exist. In the event of the sale of any stock and the reinvestment of the proceeds of the deposit in cash with the Trustee, pursuant to the provision of said AGREEMENT AND DECLARATION OF TRUST then, thereafter as before, each and every unit of stock deposited thereunder with the Trustee shall rank and at all times continue to rank *pari passu* for all purposes; and said AGREEMENT AND DECLARATION OF TRUST and all Collateral Trustee Shares issued thereunder shall for all purposes be read as though such new unit had originally been referred to therein in place of the said present unit as therein set forth and described.

If any stock in the unit deposited with the Trustee should show a market appreciation of twenty-five per cent (25%) or more above the cost of original acquisition, and, in the opinion of the Depositor, it should be deemed advisable to realize such profit, the Depositor may sell or cause to be sold such stock, and reinvest or cause to be reinvested the whole of the proceeds of such sale in any of the remaining shares of the unit, or repurchase or cause to be repurchased the shares sold as aforesaid, if the Company is in a sound financial condition, and the shares are quoted at a lower figure than that at which they were sold, or it may purchase shares of other Companies as hereinbefore provided, except that such shares must be listed on either the New York, Boston, or Chicago Stock Exchange, and not more than five per cent (5%) of the total investment in a unit deposited with the Trustee shall at any time be represented by the shares of any one company.

This certificate carries no right to the Registered Holders hereof to vote or consent or otherwise act in respect of the Stock of the Companies deposited with the Trustee or held by it under said AGREEMENT AND DECLARATION OF TRUST. In accordance with the terms of said AGREEMENT AND DECLARATION OF TRUST, said right to vote shall vest solely in the Depositor, and the said Trustee, so long as any such stock is held by it hereunder shall, upon demand of the Depositor, execute or cause to be executed and delivered to the Depositor due and valid proxies or powers of attorney to vote or consent, or otherwise act in respect of all such stock.

No transfer of this Certificate shall be valid unless made upon the books of the Trustee by the Registered Holder in person, or by his agent or attorney thereunto duly authorized in accordance with the provisions of said AGREEMENT AND DECLARATION OF TRUST and subject to such regulations as the Trustee may provide.

The said AGREEMENT AND DECLARATION OF TRUST hereinabove referred to will automatically terminate on the first day of January, A.D. 1948, unless sooner terminated as provided for therein.

This Certificate shall not be valid unless signed by the Depositor and countersigned by the Trustee.

IN WITNESS WHEREOF, the Depositor has caused this Certificate to be executed in its corporate name by its President or its Treasurer or one of its Assistant Treasurers.

NEW ENGLAND INVESTMENT TRUST, INCORPORATED.
Depositor.

By.....
President.

This is to certify that this Certificate is one of the Certificates described in the above mentioned TRUST AGREEMENT.

LIBERTY NATIONAL BANK IN NEW YORK,
Trustee.

By.....
Trust Officer.

FORM OF TRANSFER POWER

(Back of Certificate)

For Value Received, I,.....the Registered Holder of the within certificate de hereby sell, assign, and transfer the same to..... and do hereby constitute and appoint my attorney, to cause the said Certificate to be transferred on the books of the within Trustee.

Dated....., 19.....

In the presence of

NOW, THEREFORE, This AGREEMENT AND DECLARATION OF TRUST witnesseth, that in order to secure the payment of the dividend and principal of the Certificates for Collateral Trustee Shares at any time issued and outstanding under this AGREEMENT AND DECLARATION OF TRUST, according to their tenor, purport and effect, and to secure the performance and observance of all the covenants and conditions therein and herein contained, and to declare the terms and conditions upon which the said Certificates for Collateral Trustee Shares are issued, received and held, and for and in consideration of the premises and of the sum of one dollar ($1.00) lawful money of the United States of America to the Depositor duly paid by the Trustee, receipt whereof is hereby acknowledged, it is hereby agreed by the parties as follows:—

ARTICLE I

SECTION 1. The Trustee, as and when a unit or units of said one hundred thirty-two shares of stock shall be deposited with it in accordance with the terms of this AGREEMENT AND DECLARATION OF TRUST, and when required by the Depositor, shall certify and deliver or cause to be delivered to the Depositor or upon its order for each unit so deposited, Certificates for one thousand (1000) Collateral Trustee Shares in substantially the form hereinbefore recited or with such changes therein as the Trustee and Depositor may from time to time agree upon as provided in this AGREEMENT AND DECLARATION OF TRUST. The said Certificates may bear the name and be known as Collateral Trustee Shares or by such other names or title as the Depositor and the Trustee may determine.

All Certificates issued hereunder shall be fully registered in the form hereinbefore set forth. The Trustee will keep books for the registration of the Certificates in which it will register, subject to such reasonable regulations as it may prescribe, all Certificates issued hereunder. Such books of registration shall contain the names and the addresses of the respective registered holders of such Certificates, such addresses to be furnished to the Trustee by such Registered Holders upon the issue of such Certificates or upon their subsequent transfer, as the case may be. The Registered Holders of Certificates shall for all purposes be deemed the absolute owners of such Certificates respectively, and neither the Company nor the Trustee shall be affected by any notice to the contrary except in the event of transfer as hereinafter provided and except as otherwise specifically provided herein.

No transfer of any of said Certificates shall be valid unless made upon the books of the Trustee by the Registered Holders thereof or by their agents or attorneys thereunto duly authorized. Upon presentation to the Trustee at its said office in the City of New York of any such Certificate duly endorsed by the Registered Holder thereof and in proper form for transfer and upon payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge connected therewith and also a further sum not exceeding two dollars ($2.00) for each new Certificate issued, the Trustee shall accordingly transfer said Certificate(s) upon said books and shall authenticate and deliver new Certificate(s) in the name of such transferee. The Trustee may prescribe such regulations in connection therewith as may be reasonable and may require the endorsement of the said Registered Holders to be duly and suitably guaranteed.

SECTION 2. The Depositor shall have the exclusive right to deposit with the Trustee additional stock of the Companies from time to time in units as herein set forth, against which additional Collateral Trustee Shares, in substantially the form of said Certificates hereinbefore recited shall be issued; and upon such deposit as hereinafter provided, the Trustee will certify in respect of such additional stock and will deliver to or upon the order

of the Depositor such Certificate or Certificates for additional Collateral Trustee Shares to the number of one thousand (1000) Collateral Trustee Shares for each and every said unit of the stock of the Companies as above set forth deposited.

Article II

Securities Deposited with Trustee

Section 1. Certificates of the Stock of the Companies or other securities deposited with or received by the Trustee from the Depositor shall be registered in the name of the Liberty National Bank in New York, or its nominee or nominees, and, subject to the provisions hereof, shall remain so registered until the said stock or security shall be transferred to the holders of Collateral Trustee Shares or sold or delivered as provided in this Agreement and Declaration of Trust, except that the Liberty National Bank in New York may, from time to time, change its nominee or nominees.

Section 2. In every instance of the deposit of additional stock of the Companies under this Agreement and Declaration of Trust, such stock shall be fully paid and non-assessable and shall carry all dividends and all bonus, subscription or other rights, if any, carried by and paid or payable on such stock of said Companies at any time between January 1, 1927, and June 30, 1927, and at any time during the six (6) months ending respectively June 30th and December 31st in each year thereafter. In every instance of the deposit of additional stock under this Agreement and Declaration of Trust such Certificates shall be duly endorsed and accompanied by proper instruments of transfer.

And, furthermore, in every such instance said deposit shall be accompanied by payments in cash to the Trustee as follows:—

(*a*) During the life of the bonus, subscription or other rights or the time when such bonus, subscription or other rights are open to be exercised, the Depositor shall pay to the Trustee a sum in cash equivalent to the closing bid price of said bonus, subscription or other rights on the day preceding such deposit; or

(*b*) During the period between the date of the expiration of said bonus, subscription or other rights and June 30th or December 31st in each year, whichever is next subsequent to the date of deposit, the Depositor shall pay to the Trustee a sum in cash equivalent to the closing bid price of said bonus, subscription or other rights on the last day on which said bonus, subscription or other rights might have been exercised; and in both of said cases the said bid price shall be ascertained in the manner set forth in Article II, Section 2, Paragraph (*a*) hereof.

The Trustee shall not be required to accept any stock tendered for

deposit hereunder unless such tender shall be accompanied by the payment to the Trustee, (*a*) of any and all dividends declared on any of the constituents of a unit, even though not paid at the time of the deposit of said unit, and (*b*), also, in cases in which such payment may be required, of an amount sufficient to cover the amount of any and all Government and stamp duties and other taxes of any kind and all transfer fees or charges, if any, in connection with such deposit and in connection with the issue of the Certificates for the relative Collateral Trustee Shares, and any and all Government and stamp duties and taxes of any kind and all transfer fees and charges of any kind, if any, in connection with the obtaining of the registration of such stock in the name of the Trustee or its nominee on the books of the Companies. In the event of the payment to the Trustee of dividends declared, as required in this section, resulting in the Trustee receiving the payment twice over of any dividend, then the amount of such dividend previously paid by the Depositor shall be forthwith refunded to the Depositor by the Trustee.

SECTION 3. The Collateral Trustee Shares shall carry no right to vote or consent or otherwise to act in respect of the stock deposited with the Trustee or held by it under this AGREEMENT AND DECLARATION OF TRUST, whether such right or voting, consenting or acting be conferred upon the holder thereof by the Company, or by the resolution authorizing the creation of such stock, or by the laws of the United States of America or of any State thereof.

The right to vote the stock deposited with the Trustee herein, pursuant to the term of this AGREEMENT AND DECLARATION OF TRUST shall be governed by the following provisions:

(*a*) The right to vote shall vest solely in the Depositor and be exercised either by its President or Treasurer or Secretary, as authorized by its Board of Directors.

(*b*) The said Trustee so long as any such stock is held by it hereunder, shall, upon demand of the Depositor, execute or cause to be executed and delivered to the Depositor due and valid proxies or powers of attorney to vote or consent or otherwise act in respect of all such stock.

(*c*) In exercising this right the Depositor shall act solely for the benefit of the Registered Holders of Collateral Trustee Shares and shall be guided by what it believes to be for the best interest of the said holders and the Depositor shall incur no liability by virtue of any action so taken. The Depositor will exercise its best judgment from time to time in respect of such votes, consents or acts, but neither the Depositor nor the Trustee assumes any responsibility in respect of the management of the Companies nor in respect of any vote, consent or action taken by the Depositor nor shall the Trustee or the Depositor be liable or incur any responsibility by reason of any error of law or any matter or thing done or omitted or approved, voted or given or withheld by the Depositor under this AGREEMENT

AND DECLARATION OF TRUST, except each for its own wilful malfeasance. The Trustee shall be under no obligation to anyone with respect to any action taken or caused to be taken or omitted pursuant to any such proxy or power of attorney.

(*d*) In the event of the failure of the Depositor to demand a proxy or proxies from the Trustee, then the right to vote the stock may be exercised by the Trustee. And in the event of the Trustee exercising such right to vote then it shall do so in all respects in accordance with the terms and conditions of paragraph (*c*) in this Section.

(*e*) All fees, charges and expenses of the Trustee in connection with the aforesaid voting rights shall be borne by the Depositor and not by the Trustee or the Registered Holders of Collateral Trustee Shares.

ARTICLE III

DIVIDENDS ON CERTIFICATES

SECTION 1. The Trustee, until the surrender of each Certificate or until the termination of said AGREEMENT AND DECLARATION OF TRUST will pay the Registered Holder thereof on July 31st and January 31st in each year, when received by it, dividends then payable upon the following terms and conditions:

(*a*) The Trustee shall first deduct therefrom all taxes or Government charges thereon, if any, required to be retained or deducted therefrom by the Trustee under any present or future law of the United States or of any State thereof.

(*b*) Payment will be made by check in funds current at the New York Clearing House mailed to the Registered Holders of said Certificates at their addresses on the books of the Trustee on the days above specified.

The said dividends shall be the proportionate part represented by each Certificate of all dividends received by the Trustee in respect of the Stock deposited under said AGREEMENT AND DECLARATION OF TRUST, during the six (6) months ended respectively June 30th and December 31st in each year immediately preceding each dividend payment day, viz:—

(*a*) All cash dividends received by the Trustee in respect of the stock deposited under this AGREEMENT AND DECLARATION OF TRUST.

(*b*) All net cash proceeds from the sale of any stock dividends, as herein defined, received by the Trustee in respect of such stock deposited under this AGREEMENT AND DECLARATION OF TRUST. Any such stock dividends not sold by the Trustee as provided in this AGREEMENT AND DECLARATION OF TRUST, shall be accumulated and thereafter sold as soon as may be and the proceeds of such sale shall be distributed to the registered holders of said Certificates on the dividend payment day after such sale.

SECTION 2. Dividends to be paid by the Trustee to the Registered Holder of said Collateral Trustee Shares shall be paid as far as practicable in cash; the Trustee shall sell all stock or other security received by it as dividends or distribution or bonus or rights of every kind, and shall add the net proceeds of all such sales to the cash dividends received from the Companies so that the total of all dividends shall be available in cash for distribution to the Registered Holders of Certificates for Collateral Trustee Shares.

ARTICLE IV

REDEMPTION OF CERTIFICATES

SECTION 1. Until the termination of this AGREEMENT AND DECLARATION OF TRUST as herein provided or within three (3) months thereafter the Registered Holder of said Certificates upon the surrender thereof together with other like Certificates, representing in the aggregate one thousand (1,000) Collateral Trustee Shares and upon payment in cash to the Trustee of the amount required to pay any Government and stamp duties and other taxes of any kind and all transfer fees and charges of any kind, if any, in connection therewith, and upon payment to the Trustee of a fee not to exceed $5.00, is entitled to receive Certificates for all of the shares of the stocks deposited with the Trustee then constituting one unit, upon giving to the Trustee at its office in the said City three (3) full business days' notice in writing, of the intention of said Registered Holder to surrender said Certificates as provided in said AGREEMENT AND DECLARATION OF TRUST. After three (3) months after the termination of said AGREEMENT AND DECLARATION OF TRUST, the Registered Holder of this Certificate shall only be entitled to receive, upon surrender thereof in the proper form for transfer, a pro rata share of the net proceeds of the sale of any securities then remaining in the hands of the Trustee as provided in said AGREEMENT AND DECLARATION OF TRUST.

The Depositor at any time on giving to the Trustee at its office twenty-four (24) hours' written notice, duly signed by the President or the Secretary or any duly authorized officer of the Depositor may surrender one thousand (1,000) Collateral Trustee Shares, and shall thereupon receive the Certificates for all of the shares of stock of the said Companies then constituting one unit as herein defined. The Collateral Trustee Shares so surrendered shall forthwith be cancelled by the Trustee.

The Trustee may at its option, deliver either to the Registered Holder or Holders of said Certificates or to the Depositor as the case may be, Certificates for shares of stock of the said Companies standing in its name or in that of its nominee or nominees and duly endorsed and in proper form for transfer; and no duty shall rest on the Trustee in connection with the transfer of such Certificates whatsoever.

In making delivery of the Certificates of the Stock of the Companies as provided in this paragraph, the Trustee is authorized to assume that the bearer or holder of the said Certificates for Collateral Trustee Shares presenting the same to the Trustee as aforesaid is the Registered Holder thereof and is the person entitled to receive the said Certificates of Stock of the Companies as above provided; and the Trustee shall incur no liability whatsoever for any matter or thing done in connection with the making of such delivery and shall not be bound by any notice to it to the contrary. But the Trustee may, in its own sole discretion and without any obligation on its part so to do, require reasonable assurance or proof that the person so presenting said Certificates for Collateral Trustee Shares is the person entitled to receive the Certificates for shares of stock of the said Companies according to the terms of this AGREEMENT AND DECLARATION OF TRUST.

SECTION 2. Anything in this AGREEMENT AND DECLARATION OF TRUST or in the Certificates for Collateral Trustee Shares to the contrary, notwithstanding, it is hereby expressly understood and agreed that in case any one or more of the Companies merges or consolidates with any other Company or Companies, or sells or conveys all of its property as an entirety to another Company or enters into or becomes a party to any plan or scheme or re-organization whereby its capitalization is increased or reduced or altered or modified, or whereby a new Company is formed which acquired all the property and assets formerly owned by the Company, or in case of the happening of any event whereby the Stock of any Company, deposited hereunder, should be exchanged for or converted into new stocks or securities of the Company or of any other Company, then and in every such case the Trustee, in order to protect the interests of the Registered Holders of Certificates for Collateral Trustee Shares, shall exchange or convert the stock deposited hereunder for or into the stock and/or securities for which the same is exchangeable or into which it is convertible. And then and thereafter the Registered Holders of Certificates representing Collateral Trustee Shares will be entitled to receive, upon surrender of the said Certificates as herein provided, and subject to all the other provisions of this AGREEMENT AND DECLARATION OF TRUST, instead of shares of stock of the Companies originally deposited, the securities for which the stock of the Company was exchanged and/or into which it was converted. And then and thereafter, in the case of Holders of Certificates representing less than one thousand (1,000) Collateral Trustee Shares, the Trustee shall sell in accordance with the terms of this AGREEMENT AND DECLARATION OF TRUST, the stock of the Companies represented by such Certificates, or the stock and/or securities for which the same is exchangeable or into which it is convertible, and shall distribute in cash to the Registered Holders thereof the net proceeds of such sale of stock or the stock and/or securities for which the same is exchangeable or into which it is convertible.

And, furthermore, in the event of the happening of any of the things contemplated and provided for in Article 5 hereof, then and thereafter,

in the case of the deposit by the Depositor of additional stock of the Companies from time to time, as herein provided; (*a*) each unit shall be and remain as hereinbefore set forth in said Certificate for Collateral Trustee Shares, excluding, however, the Stock which has been so exchanged or converted into new Stocks or securities under the provisions of this Section 2, but including such additional stocks or securities for which the said stock has been exchanged or into which it has been converted; (*b*) the number of Collateral Trustee Shares to be issued against such new unit shall be precisely the same (viz.: 1000) as hereinbefore set forth as the number of Collateral Trustee Shares to be certified and delivered to the Depositor against the deposit of each original unit with the Trustee, and the said same numbers of Trustee Shares (viz.: 1000) shall represent, and be delivered as provided herein against the deposit of one unit of Stock of the Companies whether the said unit be as set forth in said Certificate for Collateral Trustee Shares, or after such happening as aforesaid, be as set forth and provided in this Article IV; (*c*) each and every unit of stock deposited hereunder with the Trustee shall at all times, as before, rank and continue to rank *pari passu* for all purposes; and (*d*) this AGREEMENT AND DECLARATION OF TRUST, and all Collateral Trustee Shares issued hereunder shall and for all purposes be read as though such new unit had originally been referred to herein in place of the said present unit as herein set forth and described.

However, the Trust shall not be obliged to enter into or participate or deposit in any plan or scheme or reorganization affecting any of the constituent Companies of the hereinabove defined unit without first being properly indemnified by the Depositor or all the Shareholders for all necessary and lawful expenses which the Trustee may incur and for any and all assessments which may be levied against the stock so deposited; the amount of the indemnity shall be determined reasonably and solely by the Trustee, which indemnity may be adjusted from time to time. In the event of the Depositor or all the Shareholders failing sufficiently to indemnify the Trustee, after the Trustee has already deposited the stock under any of the conditions above mentioned, or failing to continue to keep the Trustee indemnified, it may in its discretion withdraw from said scheme or plan of reorganization without liability for any penalty or other charge fixed by the Committee or other agency in charge of said reorganization.

SECTION 3. In the event of the declaration of a dividend in kind (other than a stock dividend), or in the event of any other happenings whereby any property or thing of value (other than a stock dividend) comes into the possession of the Trustee as holder of the shares of stock deposited hereunder, then and in every such event whatever is so received shall be dealt with and disposed of as stock dividend in the manner hereinafter provided, to the intent that the Registered Holders of Collateral Trustee Shares shall receive the same or the proceeds thereof in the form of cash on the next dividend payment day.

Article V

Sale of Stock Dividends

Section 1. Any stock dividend as herein defined received by the Trustee in respect of deposited stock, and any other stock or security or property which the Trustee is or may be required to sell hereunder, shall be sold by the Trustee in the manner herein described, viz.:

(*a*) The Trustee shall sell all or any part of such stock, security or property to the Depositor on written demand by it within one month after receipt thereof by the Trustee, upon receipt of the purchase price which shall be ascertained in the following manner: Such price shall be the closing bid price of said Stock on the day of said demand as shown by, first, the Official Daily List or other list of prices issued by or under the authority of the New York, Chicago or Boston Stock Exchange; or if no quotation appears in such Official Daily List or other list of prices, then second, the Official List or other list of prices issued by or under the authority of any other recognized Stock Exchange in the United States or Canada; or if no quotation appears in such list of prices, then, third, the bid price quoted in the "New York Commercial and Financial Chronicle" of the Saturday next preceding the date of said demand; or if no quotation appears in such "Chronicle," then, fourth, the price shall be the closing bid price on the day preceding said demand as stated in a letter to be obtained by the Depositor from any member of the New York, Chicago or Boston Stock Exchange, or of the New York Curb Market, or of any other recognized Stock Exchange in the United States or Canada and delivered to the Trustee.

(*b*) If the Depositor shall not purchase such stock, security or other property or shall purchase less than all of said stock, security or other property within the time fixed aforementioned, then the Trustee shall proceed before the next dividend payment day to sell the unsold portion of said stock, security or other property on open market at the best obtainable price therefor. Failing such sales on the open market of all or any part of the stock, security or other property not sold to the Depositor, the unsold portion of said stock, security or other property shall be held by the Trustee and shall be accumulated and thereafter sold by the Trustee as soon as may be and the proceeds of such sale shall be distributed to the Registered Holders of said Certificates on the next dividend payment day after such sale.

In no event, and under no circumstances shall any stock be delivered by the Trustee to the Depositor for the purpose of sale unless and until a certified check or the cash equivalent to the amount for which it is proposed to sell such stock shall have been deposited with the Trustee.

In the event of the sale of such stock, security or other property to the Depositor the Certificates therefor together with the necessary instruments of transfer duly executed representing the stocks, security or other property purchased by the Depositor shall be delivered to the Depositor or to its order at the said City of New York by the Trustee upon the payment to it of said purchase price and the amount required to pay any Government and stamp duties and other taxes of any kind and all transfer fees or charges of any kind, if any, in connection therewith.

In making sale of such stock, security or other property, at the best obtainable price in the open market, the Trustee is hereby specifically authorized to use its own unrestricted discretion and judgment.

Article VI

Replacement of Lost or Mutilated Certificates

Section 1. If any such Certificates for Trustee Shares shall be mutilated or lost the same may be renewed on such evidence being produced as the Trustee shall require; and (in case of mutilation) on the surrender of the old Certificate and (in case of loss) on the execution and delivery to the Trusteee of such indemnity, if any, as the Trustee may require; and (in either case) on payment of such sum not exceeding $2.00 per Certificate as the Trustee may require from time to time. In case of loss the person availing himself of the provisions of this Article shall also pay to the Trustee all expenses incident to the investigation of evidence of loss.

Article VII

Termination of This Agreement

Section 1. The Trust hereby created shall continue until terminated, as hereinafter set forth, provided, however, that in no event shall such trust continue longer than the 1st day of January, 1948. The Depositor may at any time, in its discretion, terminate said trust as of the close of any semi-annual dividend period (unless disapproved by the holders of 25 per centum in amount of Collateral Trustee Shares), by notice in writing to the Trustee at least three months prior to the close of such semi-annual dividend period followed by the procedure hereinafter described. In the event of such notice of termination given by the Depositor, the Trustee shall immediately, and within ten days thereafter, notify all holders of record of Collateral Trustee Shares that the Depositor desires the termination of said Trust as of the close of the next following semi-annual dividend period. Said notice shall state in substance that pursuant to the provisions of the Trust Indenture, the Depositor, by formal notice, has expressed the desire to terminate the

Trust as of the end of the next semi-annual dividend period, and that a vote shall be taken by written ballot among the holders of record of Collateral Trustee Shares, said ballots to be deposited with the Trustee in person or by mail not later than a date thirty days prior to the date on which said proposed termination shall become effective. Enclosed with said notice shall be an appropriate form of ballot to be cast by the holders of such Collateral Trustee Shares, which shall raise the issue in clear and unequivocal language. The Trustee immediately after the termination of the voting period shall count the ballots received by it, and unless the votes of the holders of more than twenty-five per centum (25%) of the total outstanding Collateral Trustee Shares shall have voted against the termination of the Trust, said Trust herein created shall be terminated as of the end of the next semi-annual dividend period thereafter.

SECTION 2. Upon the termination of this AGREEMENT AND DECLARATION OF TRUST the Trustee shall proceed as follows:

(*a*) The Trustee shall discontinue accepting deposits of additional stock of the Companies and shall not be required to exercise any rights which shall thereafter accrue in respect of stock theretofore deposited.

(*b*) The Trustee, by advertisement published as provided in Article X hereof, shall call for the surrender, at its office in the said City of New York .....of the then outstanding Certificates for Collateral Trustee Shares.

(*c*) The Trustee, within three (3) months from the date of the termination of this AGREEMENT AND DECLARATION OF TRUST, upon the surrender to it of Certificates in proper form for transfer representing in the aggregate one thousand (1,000) Collateral Trustee Shares, or multiples thereof and on payment of the amount of any and all Government and stamp duties and other taxes of any kind and all transfer fees or charges of any kind, if any, in connection therewith, and upon payment to the Trustee of a fee not to exceed five ($5.00) dollars, shall exchange for such surrendered Certificates, stock of the Companies at the rate of one (1) unit of the stock of the Companies as then held for each one thousand (1,000) Collateral Trustee Shares so surrendered in the manner provided in Article IV hereof.

(*d*) After the expiration of three (3) months from the date of said termination, and within the period of sixty (60) days next ensuing, the Trustee shall sell all stock theretofore deposited with it, or received or held by it, then remaining in its hands, in the manner provided in Section I of Article V of this AGREEMENT AND DECLARATION OF TRUST, except that the date of the expiration of said three (3) months shall be considered for the purposes of such sale as the date of the receipt of such stock by the Trustee and the Depositor may make demand therefor within one month thereafter; and the Trustee at the termination of said period of sixty (60) days, shall distribute all cash proceeds thereof, pro rata to the holders of the then outstanding Collateral Trustee Shares, upon surrender of the same to the Trustee and upon payment to it of the amount of any and all transfer

fees or charges of any kind, if any, in connection therewith; and after the expiration of such period of sixty (60) days, no further rights shall belong to the said Certificates or to the holders thereof except for the receipt of their distributive pro rata share of the net proceeds of such sales.

Article VIII

Change in the Par Value of Stock

Section 1. In the event of the Stock of any of the Companies comprising the unit being at any time divided into shares of any denominations other than their present respective denominations as above set forth, then this Agreement and Declaration of Trust, and all Collateral Trustee Shares issued hereunder, shall thereafter for all purposes be read as though such new denomination had originally been referred to herein in place of the said present respective denominations, though the number of shares comprising a unit may become less or more than one hundred thirty-two (132) shares; and thereafter each said Collateral Trustee Share shall, for all purposes under the Agreement and Declaration of Trust represent the same proportion of one (1) unit as theretofore, namely; a 1/1000 interest in each new unit comprising a greater or lesser number of shares of the stock of the Companies, and thereafter as before, each Collateral Trustee Share would, for all purposes under this Agreement and Declaration of Trust, still represent a 1/1000 (one thousandth) interest in said unit of shares of the stock of the Companies. The Trustee shall not be liable to anyone for any action taken or omitted by it pursuant to the provisions of this section.

(*a*) In the event that the share or shares of stock of any Company received as the result of such capital rearrangement referred to in Section 1 of this Article shall represent in part a transfer of surplus to the Capital Account of such Company, then such additional share or shares shall be deemed principal of this Trust Fund, and shall be retained by the Trustee.

Article IX

Changes in Securities Held by Trustee

Section 1. If at any time any Company, any of whose Stock is held by the Trustee hereunder shall liquidate voluntarily or otherwise, or have a Receiver appointed for a substantial portion of its property and such Receivership shall continue for sixty (60) days without any Court proceeding having been instituted for the discharge of said Receiver or shall fail

for one year to pay any dividend on such Stock or if at any time the Depositor should receive information that in its opinion would warrant the conclusion that dividends will cease either temporarily or permanently to be paid in cash on its Stock by any such Company or that such Stock will become substantially impaired in value, then the Depositor shall have the right, but not the obligation, in accordance with its sole discretion and judgment (subject always to the limitation provided in Section 8 hereof) to sell such stock and either to reinvest the proceeds or any part thereof in the purchase of stock of the same class as already included hereunder, or of any one or more of the other Companies enumerated herein, or in the shares of financially sound corporations which have a record of the payment of dividends for no less than the preceding five (5) consecutive years and which are listed on the New York or Boston or Chicago Exchange or to pay such proceeds or any balance thereof to the Trustee, as provided in Section 3 hereof. All such purchases of Stock of any of the said Companies shall be made in such numbers of Shares that a unit shall always comprise full and complete Shares only, and never any part or fraction of a Share, of each Company.

SECTION 2. Before making such sale under Section 3 hereof, the Depositor shall file with the Trustee a Certificate, executed by (*a*) its President or Vice-President and (*b*) its Secretary or Treasurer or Assistant Secretary or Assistant Treasurer, setting forth the information upon which its opinion is based and the source thereof. And before the delivery of any securities by the Trustee for the purpose of sale as set forth in Sections 1 and 3, the Depositor shall deliver to the Trustee a certified check or the cash equivalent to the amount for which the Depositor proposed to sell said securities.

SECTION 3. In effecting such sales and reinvestments the Depositor is hereby specifically authorized to accept and pay such price and generally to agree to such terms as it shall in its own unrestricted discretion deem to be the best obtainable in the open market; and the Trustee is accordingly authorized and empowered from time to time; (*a*) to transfer and deliver such Stock as aforesaid, to the Depositor or its order, against the written request of the Depositor and the payment in cash of such sum as the Depositor shall in writing certify to be the net sale proceeds of the stock to be so delivered by the Trustee; and (*b*) and/or against the delivery to the Trustee of the said further stock of any one or more of the Companies enumerated herein to pay to the Depositor or its order out of any cash in the hands of the Trustee representing the proceeds of sale of stock so sold such sums as the Depositor shall in writing certify to be the purchase price of the Stock so delivered to the Trustee. Such Certification by the Depositor of both sale price and purchase price shall be accompanied or confirmed by a Contract Note or Confirmation Note or Letter from a member (*a*) of the New York Stock Exchange or (*b*) any other recognized Stock Exchange in the United States or Canada on which such Stock is listed.

SECTION 4. On the receipt by the Trustee of written notice from the Depositor of its intention to sell any constituent or constituents of a unit, and/or to reinvest the proceeds thereof, as provided in Article IX of this AGREEMENT AND DECLARATION OF TRUST, then the right of the Depositor to deposit additional units or withdraw units, as provided in Section 2 of Article I and Section 1 of Article IV hereof, respectively, and the right of the holders of Collateral Trustee Shares, pursuant to Section 1 of Article IV hereof, to receive stocks of the Companies upon the surrender of Collateral Trustee Shares, shall forthwith be suspended (*a*) for a period of sixty (60) days or (*b*) for the period between the dates of commencement and completion as set forth in the next paragraph hereof, whichever shall be the shorter period.

Thereafter the Depositor shall notify the Trustee in writing of the date (*a*) when it commences to sell the Stock of the said constituent or constituents. The Depositor shall use its best endeavors to effect the sale or sales and the reinvestments above described within sixty (60) days from the date of the delivery of the written notice to the Trustee of its intention to sell. But the Depositor shall incur no liability by virtue of any act committed or omitted by it pursuant to this Article.

In the event of the failure of the Depositor to complete the sale of the stock of the constituent or constituents or to complete the reinvestment of the proceeds of said sale, then in that event the Trustee shall proceed as rapidly as may be to sell, in accordance with Section 1 of Article IV, Paragraph (*b*) hereof, the remaining shares of the said constituent or constituents and also so much of the shares of any other Company or Companies that may have been purchased with the proceeds of such sales as were previously made by the Depositor and that cannot be apportioned equally among the units in full shares, one or more to each unit; and the Trustee shall on the next dividend payment day distribute such cash as a dividend, in the manner provided herein, ratably to the Registered Holders of Collateral Trustee Shares and all such dividends shall be deemed for all purposes as distributions in reductions of capital of the unit.

SECTION 5. The Trustee shall, for and on behalf of the Registered Holders of Collateral Trustee Shares, and subject as aforesaid; (*a*) hold all further stock, delivered to it as aforesaid, upon the terms and conditions herein contained with reference to the Stock enumerated herein, and (*b*) hold any balance of cash in its hands, representing the proceeds of stocks sold and not reinvested as aforesaid, until the next dividend payment day and shall then distribute such cash as a dividend, in the manner provided herein, ratably to the Registered Holders of Collateral Trustee Shares, and all such dividends shall be deemed for all purposes as distributions in reduction of capital of the unit.

SECTION 6. Thereafter the units of Stock to be deposited by the Depositor hereunder shall be as hereinbefore set forth in said Certificate for Collateral Trustee Shares, excluding, however, the Stock of any Company whose

stock has been sold by the Depositor as aforesaid, but including any additional stock purchased as aforesaid, or alternatively the amount in cash equivalent to the net proceeds of such sale; and the number of Collateral Trustee Shares to be issued against each such new unit shall be precisely the same number (viz.: 1000) as hereinbefore set forth as the number of Collateral Trustee Shares to be issued to the Depositor against the Deposit of each original unit with the Trustee, and the said same number of Collateral Trustee Shares shall represent and be issued as provided herein against the deposit of, one unit of Stock whether the said unit be as set forth in said Certificate for Collateral Trustee Shares, or after such sale as aforesaid, be as set forth and provided in this Article.

SECTION 7. In the event of the sale of any Stock and the reinvestment of the proceeds or the deposit thereof in cash with the Trustee, or the distribution in reduction of capital pursuant to the provisions of this Article, then (*a*) notice thereof shall be given to the Registered Holders of Collateral Trustee Shares by sending a statement thereof semi-annually coincident with mailing dividends to said shareholders; (*b*) thereafter all certificates issued hereunder shall be amended in order that the same may set forth the constituents of the said new unit as the same shall be constituted in pursuance of the terms of this Article; and (*c*) thereafter as before each and every unit of stock deposited hereunder with the Trustee shall at all times rank and continue to rank *pari passu* for all purposes; and this AGREEMENT AND DECLARATION OF TRUST, and all Collateral Trustee Shares issued hereunder, shall for all purposes be read as though such new unit had originally been referred to herein in place of the said present unit as herein set forth and described.

SECTION 8. The right conferred upon the Depositor under this Article shall be and hereby is limited as follows: In the event of either (*a*) the Stock of twenty (20) of the said Companies being sold under the provisions of this Article, or (*b*) the par amount of stock so sold totalling twenty per cent (20%) of the total aggregate par amount of the Stocks deposited hereunder and as calculated herein, then in either of these events the said right of the Depositor shall cease to exist.

The Trustee may rely and act upon the Certificate referred to in Section 2 of Article IX hereof and shall not be liable to anyone for any action taken or omitted by it pursuant to the provisions of this Article.

ARTICLE X

NOTICES

SECTION 1. Any notice which the Trustee shall be required to give to the Depositor shall be given by registered mail addressed to the Depositor at the address stated herein or at any address filed with the Trustee by the

Depositor. Any required notice to the Registered Holders of Collateral Trustee Shares shall be deemed to have been sufficiently given if an advertisement containing such notice shall be published in one daily newspaper of general circulation published in the said City of New York, such advertisement to be inserted at least once in each calendar week (in each instance upon any day of the week) for three successive weeks, the first publication of such advertisement to be not less than one month nor more than three months before the first date on which the holders of Collateral Trustee Shares are requested or required to take action in respect of the matter or matters set forth in such advertisement, or by registered mail to the registered holders at their addresses as they appear on the books of the Trustee.

Article XI

Registered Holders of Certificates Only Persons Interested

Section 1. The Registered Holders of the Certificates for Collateral Trustee Shares shall be the only persons having any right or title or interest in or to such Collateral Trustee Shares, and the Trustee and the Depositor will recognize the Registered Holders of said Certificates for Collateral Trustee Shares as the absolute owners thereof and shall not be bound by any notice to the contrary and shall not be bound to take notice or to see to the execution of any trust or mortgage or pledge or other instrument, whether express or implied or constructive, to which said Collateral Trustee Shares may be subject; and (in addition and without prejudice to the provisions of this Agreement and Declaration of Trust with respect to the payment of dividends or distributions or moneys payable in respect of the Collateral Trustee Shares) payments or redemption as herein provided to the Registered Holders of such Certificates shall be a complete discharge to the Trustee and to the Depositor for any and all dividends or distributions or money payable in respect of such Collateral Trustee Shares, notwithstanding any notice they may have, expressed or otherwise, of the right, title, interest, claim or demand of any other person to or in such Collateral Trustee Shares of dividends or distributions or moneys; except as otherwise specifically provided in this Agreement and Declaration of Trust.

Article XII

Modification of Certificates

Section 1. The Trustee is hereby authorized and empowered from time to time, with the written approval of the Depositor, to modify all Certificates representing Collateral Trustee Shares issued hereunder or to enter

into any AGREEMENT or AGREEMENTS with any of the Companies intended to facilitate the collection of dividends or of any other rights, powers or duties of the Trustee in respect of the deposited stock. But any modification of the terms of the Certificates for Collateral Trustee Shares issued hereunder and then outstanding shall not affect the substantive rights of the Registered Holders thereof.

ARTICLE XIII

REGARDING QUOTATION OF COLLATERAL TRUSTEE SHARES

SECTION 1. The Trustee when required by the Depositor shall at the expense of the Depositor take whatever steps are requested by the Depositor to enable the Depositor to cause said Collateral Trustee Shares to be quoted or dealt in on any Exchange designated by the Depositor in such request.

ARTICLE XIV

RESIGNATION, REMOVAL AND SUBSTITUTION OF TRUSTEE

SECTION 1. Any Company or Corporation into which the Trustee or any Successor to it may be merged or with which it or any Successor to it may be consolidated, or any Company or Corporation resulting from any merger or consolidation to which the Trustee, or any successor to it, shall be a party, provided such Company or Corporation shall be a Company or Corporation incorporated under the laws of the United States of America or any state thereof, shall be the successor Trustee under this AGREEMENT AND DECLARATION OF TRUST, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

SECTION 2. On written notice served upon the Trustee, the Depositor may remove the Trustee and/or any successor Trustee. And on written notice served upon the Depositor, the Trustee may resign and be discharged from its undertaking and duties hereunder. The resignation of the Trustee shall take effect on the day specified in such notice of resignation which day shall not be less than three (3) months from the day of such service, and such removal of the Trustee shall take effect on the day fixed in the notice of removal, not later, however, than three (3) months from the date of the receipt thereof by the Trustee so removed, unless in either case previously to the day so fixed in any such notice a successor Trustee shall have been appointed and shall have accepted such appointment, in the manner herein provided in which event such resignation or removal shall take effect immediately on the appointment of and acceptance of such appointment by

such successor Trustee. Whenever notice of resignation or removal of the Trustee has been given, as above provided, the Depositor may appoint a successor Trustee, which successor Trustee shall be a bank with authorized trust powers or a trust company doing business in the City of New York or within the Commonwealth of Massachusetts, in good standing and having a capital and surplus of at least two million dollars. The Depositor agrees that in such case it will forthwith appoint a successor Trustee to the Trustee so removed or resigning, and in case the Depositor shall fail to appoint such successor Trustee within sixty days after the notice of the resignation or removal of the Trustee aforesaid, then the Trustee shall forthwith by a fifteen days' notice in writing summon the Registered Holders of Trustee Certificates to a meeting for the purpose of electing a successor Trustee, and the majority of the Collateral Trustee Shares represented at said meeting in person or by proxy may appoint such successor Trustee. Upon the appointment of the successor Trustee by the Depositor, such successor Trustee shall forthwith notify by mail all holders of Collateral Trustee Shares of such change in the Trustee, and such appointment shall be deemed to have been approved by shareholders unless within twenty (20) days from the date of such notice objection thereto in writing shall have been received by the Depositor from said shareholders representing ownership of at least thirty-three per cent. (33%) of the outstanding Collateral Trustee Shares at the date of the notice to shareholders aforesaid.

Section 3. Every such appointment, whether by the Depositor or by the Holders of Certificates for Collateral Trustee Shares, shall be in writing and executed in duplicate. One original thereof shall be filed with the Trustee ceasing to act, together with the written acceptance of such appointment by the successor Trustee, and one original thereof with the successor Trustee; and such filing of such appointment and acceptance without further act shall complete the appointment of the successor Trustee as such.

Section 4. Immediately upon filing of such notice of appointment and acceptance with the retiring Trustee, the success or Trustee named therein, without any further act, deed, conveyance of transfer, shall succeed to the rights, powers, duties and obligations of its predecessor as Trustee hereunder, with like effect as if originally named as the Trustee herein. The retiring Trustee, upon the written demand of its successor, shall deliver to the successor Trustee the stock of the Companies then held by it hereunder, and the necessary transfer or other instruments duly executed, together with any and all moneys and securities and property of any kind held by it hereunder; and all liability on the part of the retiring Trustee to the holder or holders of its Certificates then outstanding with respect to the property so delivered, or any part thereof, shall immediately cease and determine.

Section 5. The filing of the notice of appointment of a successor Trustee and acceptance thereof in the manner aforesaid and such written demand of the successor Trustee for the delivery of the property held by its predecessor,

as aforesaid, and the receipt of the successor Trustee for such property, shall constitute a full and complete discharge of the retiring Trustee of and from any and all obligations respecting the property delivered to the successor Trustee and of and from all obligations of any and every kind hereunder. The retiring Trustee shall execute and deliver all such transfers and/or other instruments, and do all such things as may reasonably be required, for more fully and certainly effecting the substitution of the successor Trustee as Trustee hereunder.

Article XV

Concerning the Trustee

Section 1. The Trustee hereby accepts the trusts of this Agreement and Declaration of Trust, but only upon and subject to the following express terms and conditions to which the parties and all holders of Collateral Trustee Shares, issued and to be issued hereunder hereby agree.

(*a*) The Trustee may execute any of the trusts or powers hereof, and may perform any duties required of it, by or through attorneys, agents, receivers or employees, and shall be entitled to advice of counsel concerning all matters of trust hereof and their respective duties hereunder, and may in all cases pay such reasonable compensation as the Trustee shall deem proper to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof, and the Company covenants and agrees to repay upon demand all such outlays and expenditures so incurred.

Section 2. In the event of the Trustee, at any time after the execution of this Agreement and Declaration of Trust, making any disbursements of moneys or incurring any expense in defense of this Agreement and Declaration of Trust or to protect the interests and rights of the holders of Collateral Trustee Shares or for or in connection with the duties imposed upon it by this Agreement and Declaration of Trust, including reasonable counsel fees (unless such disbursements paid or incurred are otherwise provided for in this Agreement and Declaration of Trust) the Trustee shall have a lien therefor (anything herein contained notwithstanding) upon all dividends, whether cash or stock dividends, received by it in respect of the stock of the companies deposited hereunder and shall be reimbursed therefrom before the payment of any dividends thereafter accruing on the said Certificates for Collateral Trustee Shares, and before the redemption of such Certificates as herein provided.

Section 3. The Trustee shall not be responsible for any recitals herein or in the Certificates of Collateral Trustee Shares contained; or for the execution, recording, registration, filing or re-filing of this Agreement and Declaration of Trust or any agreement of further assurance, or for the

validity of any of the Collateral Trustee Shares, or of this AGREEMENT AND DECLARATION OF TRUST, or as to the liability of the Depositor in respect thereto or for the execution or acknowledgment thereof or for the affixing or cancellation of any revenue stamps or for the sufficiency of the security for the Collateral Trustee Shares issued under or intended to be secured hereby, or for the value of or title to any of said securities deposited with the Trustee under the terms of this AGREEMENT AND DECLARATION OF TRUST, or for the payment or for keeping down taxes, charges, assessments, or liens upon the same or otherwise as to the maintenance of the security hereof. And the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any convenants, conditions or agreements herein on the part of the Depositor. The recitals and statements in this AGREEMENT AND DECLARATION OF TRUST and in the Certificates of Collateral Trustee Shares shall be taken as statements by the Depositor and shall not be considered as made by or as imposing any obligations or liability upon the Trustee.

SECTION 4. The Trustee shall not be accountable for the use or application of any Certificates of Collateral Trustee Shares certified or delivered hereunder, or for the use or application of any moneys paid over or securities delivered by it in accordance with any provision of this AGREEMENT AND DECLARATION OF TRUST.

SECTION 5. The Trustee shall be protected in acting upon any notice, request, consent, sworn statement, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed and sent by the proper person or persons. The Trustee shall not be bound to recognize any person as the holder of any Certificate of Collateral Trustee Shares, or to take any action at his request unless such Certificate of Collateral Trustee Shares shall be submitted to it for inspection and deposited with it if so requested. Any action taken by the Trustee pursuant to this AGREEMENT AND DECLARATION OF TRUST upon the request or authority or consent of any person who, at the time of making such request or giving such authority and consent, is the owner of any Certificate of Collateral Trustee Shares, shall be conclusive and binding upon all future owners of the same Certificates of Collateral Trustee Shares in exchange therefor or in place thereof.

SECTION 6. The Trustee shall not be compelled to do any act hereunder or to take any action toward the execution or enforcement of the Trusts hereby created or to prosecute or to defend any suit in respect hereof unless indemnified to its satisfaction against all loss, cost, liability and expense.

SECTION 7. As to the existence or non-existence of any fact, or as to the sufficiently or validity of any instrument, paper or proceedings, unless other evidence is specifically required, the Trustee shall be entitled to rely upon a Certificate of the Depositor signed by its President, or a Vice-President, or Treasurer, or an Assistant Treasurer or Clerk, as sufficient

evidence of the facts therein stated. The Trustee may accept a Certificate of the Clerk of the Depositor under its seal to the effect that a resolution in the form thereto set forth has been adopted by the Directors or by the Stockholders thereof as conclusive evidence that said resolution has been duly adopted, and is in full force and effect. The Trustee may rely upon the opinion or advice of any attorney, appraiser, accountant or other expert whether retained or selected by the Trustee or by the Depositor or otherwise, and shall not be responsible for any loss resulting from any action or non-action in accordance with any such opinion or advice.

SECTION 8. The Trustee shall not be liable for any action taken in good faith and believed to be within the discretion or power conferred upon it by this AGREEMENT AND DECLARATION OF TRUST or be responsible for the consequences of any oversight or error of judgment and the Trustee shall not be answerable for the acts, neglects, or defaults of any attorney, counsel or any other person employed by it and selected with reasonable care. Any notice of demand which by any provision of this AGREEMENT AND DECLARATION OF TRUST is required or provided to be given and served by the Trustee or the Depositor, shall be deemed to have been sufficiently given and served for all purposes, by being deposited as ordinary mail matter, postage prepaid in the United States Post Office or any branch thereof in the City of Boston, addressed as follows:

New England Investment Trust, Incorporated,
85 Devonshire St., Boston, Massachusetts,

or at any such other address as the Depositor may designate in writing to the Trustee.

SECTION 9. The Trustee shall not be required to give any bond or security in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

SECTION 10. In the event of the liquidation or dissolution of any of the Companies, or if for any other reason it becomes impossible or impracticable to carry out the provisions of this AGREEMENT AND DECLARATION OF TRUST, the Trustee does not assume nor shall it incur any liability to anyone and shall not be held liable nor responsible therefor or thereby, nor in respect of any action taken by it as the custodian of the stock deposited or which may be received hereunder, and the Trustee does not assume any liability nor shall it be held liable nor responsible to anyone by reason of any error of law or any matter or thing done or suffered or omitted to be done by it in good faith, in or about such liquidation or dissolution of any of the Companies, nor shall the Trustee or the Depositor be responsible or liable in any way to anyone in these respects.

SECTION 11. The Trustee does not assume any liability nor shall it be held liable or responsible to any holder of Certificates of Collateral Trustee Shares or to the Depositor, if by reason of any provision of any present or future law of the United States of America or any State thereof,

or of any decree, order or judgment of any court of the United States of America or of any State thereof, the Trustee shall be hindered, prevented or forbidden from doing or performing any act or thing which by the terms hereof, it is provided that it shall do or perform.

As a compensation for its services hereunder, the Trustee shall receive from the Depositor on the 31st day of December of each year while this AGREEMENT AND DECLARATION OF TRUST is in effect, one-fifth of one per cent. of the market value of all securities held on deposit by the Trustee, and the Trustee shall on the thirty-first day of July and the thirty-first day of January in each year be paid by the Depositor, one-half of one per cent. of all dividends collected during the six months ending respectively July 31st and January 31st in each year, and the Trustee shall receive the sum of fifty (50c) cents for each and every Certificate of Collateral Trustee Shares certified or transferred, and the Trustee shall be entitled to refuse to certify or transfer any such Certificate of Collateral Trustee Shares until said fee of fifty (50c) cents shall have been paid; and the Trustee shall be paid by the Depositor, the sum of fifteen (15c) cents for each dividend check mailed or delivered by it to any holder of Certificate of Collateral Trustee Shares. And the Trustee shall have a first lien upon all the securities deposited with it hereunder, and upon all cash held under any provision of this AGREEMENT AND DECLARATION OF TRUST for the payment of the compensation and fees herein specified, and for any expenses, advances and counsel fees incurred in and about the execution of the Trust hereby created, and in the exercise and performance of its powers and duties herein, and for the cost and expense of defending against any liability in the premises of any character whatsoever, and the Depositor hereby covenants and agrees to pay to the Trustee, the compensation herein specified for its services in the premises as well as all advances, counsel fees and other expenses made or incurred in and about the execution of the Trust hereby created. The compensation of the Trustee shall not be limited to or by any provision of law in regard to the compensation of a trustee of an express trust. And if, in the opinion of the Trustee, the compensation to be paid to it as herein specified shall be deemed by it to be inadequate, the Trustee may require the Depositor to pay such additional compensation as the Trustee shall deem to be fair and equitable, first giving to the Depositor thirty (30) days' notice in writing of the proposed change in the scale of compensation to the Trustee, and thereupon the Depositor shall before the expiration of the said thirty (30) days, notify the Trustee in writing of its acceptance or rejection of the proposed change in compensation of the Trustee, and upon the refusal of the Depositor to assent to the proposed change in compensation to the Trustee, the Trustee may in its discretion resign its Trust in the manner herein otherwise provided; the assent of the Depositor to any change in the compensation of the Trustee shall be binding on all parties hereto including the holders of any Certificates of Collateral Trustee Shares.

Article XVI

Particular Rights, Duties and Covenants of the Depositor

Section 1. The Depositor for the time being hereunder may assign all its rights hereunder, as such Depositor to any of the Companies or to any other person, firm, banking house, institution or corporation; provided that the Company or the person, firm, banking house, institution or corporation to which such assignment shall have been made shall file with the Trustee an instrument in writing, whereby it shall assume all obligations of the assigning Depositor, if any, hereunder, and thereupon the said assigning Depositor shall be absolved and released from all further obligations, if any, hereunder, and shall cease to be a party hereto, and thereafter such successor Depositor may exercise all the powers and enjoy all the rights and be subject to all the duties and obligations, if any, of the Depositor hereunder as fully as though such successor Depositor had been originally named as a party thereto.

Section 2. *The Depositor shall make no charge* for its services hereunder, but it shall be entitled to retain for its own use and that of its associates *its profits* upon the purchase or sale of certificates for Collateral Trustee Shares and/or other securities, and for its own use any benefits accruing to it under this Agreement and Declaration of Trust. The Depositor does not assume any liability, nor shall it be held liable nor responsible to any holder of any Certificate of Collateral Trustee Shares, if by reason of any provision of any present or future law of the United States of America or of any State thereof, or of any decree, order or judgment of any Court of the United States of America, or of any State thereof, the Depositor shall be hindered, prevented or forbidden from doing or performing any act or thing, which, by the terms hereof, it is provided that either of them shall do or perform.

The Depositor hereby covenants and agrees that it shall not publish or issue any advertising matter concerning Certificates of Collateral Trustee Shares, or concerning this Agreement and Declaration of Trust in which the name of the Trustee is mentioned, without first submitting the same to the Trustee.

Article XVII

General Provisions

Section 1. The Depositor and the Trustee may each become the owner of Certificates for Collateral Trustee Shares with the same rights which either would have if not parties to this Agreement and Declaration of Trust.

SECTION 2. Neither the Trustee nor the Depositor shall be liable for any payments made by either of them, or suffered by either of them to be made by any of the Companies, in good faith to any duly empowered fiscal authority in the United States of America, for taxes upon the stock of the Companies deposited hereunder, or upon said Certificates for Collateral Trustee Shares, and/or dividends (whether in cash or stock or otherwise) payable thereon.

SECTION 3. The Trustee and the Depositor may rely upon the advice of solicitors or counsel, who may be the solicitors or counsel for the Trustee or for the Depositor or for any of the Companies, and upon statements of accountants, brokers and other persons believed by it or them in good faith to be expert in relation to the matter upon which they are consulted; and for anything done or suffered in good faith based on such good advice and/or information, neither the Trustee nor the Depositor shall be liable to anyone.

SECTION 4. For anything done or suffered by the Depositor in good faith in accordance with the request or advice of, or based upon information furnished by the Trustee or any of the Companies, the Depositor shall not incur liability to anyone; for anything done or suffered by the Trustee in good faith in accordance with the request or advice of, or based upon information furnished by the Depositor or any of the Companies, the Trustee shall not incur liability to anyone. By no implication or construction whatsoever shall any liability to anyone be placed upon the Depositor or Trustee under this AGREEMENT AND DECLARATION OF TRUST, except such liability be expressly assumed by it or them herein.

SECTION 5. Whenever, under this AGREEMENT AND DECLARATION OF TRUST, any dividend is to be paid or any distribution is to be made to registered holders of Certificates for Collateral Trustee Shares or any act or things to be done by the Trustee or the Depositor hereunder on any specified day, and such specified day falls on a Sunday or legal holiday, then such dividend shall be paid or distribution shall be made or such act or things shall be done on the business day next following the day so specified.

SECTION 6. Nothing in this AGREEMENT AND DECLARATION OF TRUST or in any Certificate for Collateral Trustee Shares, is intended to or shall be construed to give any person or corporation other than the parties hereto any legal or equitable right, remedy or claim under or in respect of this AGREEMENT AND DECLARATION OF TRUST, or any such Certificate or any covenant or condition or provision herein or therein contained, all such covenants, conditions and provisions being intended to be and being for the sole and exclusive benefit of the parties hereto, their respective successors, personal representatives and assigns. All questions concerning the terms, provisions and effect of this AGREEMENT AND DECLARATION OF TRUST or of the Certificates issued hereunder, shall be determined exclusively according to the Laws of the Commonwealth of Massachusetts, and shall

be adjudicated solely by the proper tribunals in said State. In any judicial proceedings to determine questions under this AGREEMENT AND DECLARATION OF TRUST, every holder of any Certificate issued hereunder shall be deemed to be fully represented by the Trustee for all purposes, if the Trustee shall be a party to such proceeding and as such shall duly appear before the court or tribunal in which such proceedings shall be pending, but the Trustee shall not be required so to appear unless requested and indemnified as hereinbefore provided.

SECTION 7. The Covenants contained in this AGREEMENT AND DECLARATION OF TRUST on the part of the Trustee and Depositor are several and not joint and neither acts for nor is responsible for any failure of performance by the other, and no party shall be liable to any other party by reason of any matter or thing herein contained, unless such party shall have expressly so covenanted.

SECTION 8. Neither the Trustee, nor the Depositor, shall be responsible in any way whatsoever for the recitals herein contained nor for any other thing except each its own wilful acts or for any statement of fact herein made or representation or warranty implied therefrom, or for the failure of any of the Companies to carry out any agreement on its part, nor shall the Trustee be responsible for the acts or omissions of the Depositor or the Depositor for the acts or omissions of the Trustee.

SECTION 9. By agreement by the Trustee and Depositor, the terms and provisions of this AGREEMENT AND DECLARATION OF TRUST may be modified and amended but any such modification or amendment shall not affect the substantive rights of holders of Collateral Trustee Certificates. Notice of any proposed modification or amendment shall be given by registered mail to each certificate holder. Such modification or amendment shall become effective after twenty (20) days from the date of such notice unless within said twenty (20) days objection in writing shall be received by the Depositor from holders representing thirty-three (33) per cent. of outstanding Collateral Trustee Certificates.

ARTICLE XVIII

DEFINITIONS

SECTION 1. The term "Trustee" shall include any nominee or nominees of the Trustee and any successor company succeeding to the rights of the Trustee herein named by appointment or by the AGREEMENT of the parties hereto or by operation of law. The term "Depositor" shall include not only the Depositor herein named, but its successors and assigns and its nominees and any other person or corporation succeeding to the rights of the Depositor herein named, whether by assignment or by agreement be-

tween the parties or by operation of law. The term "stock dividends" shall include, when issued in fractional shares or lots but not whole shares, any and all rights, securities and property received by the Trustee as dividends upon the stock deposited hereunder and also any distribution in respect thereof of any stock or securities or property paid or delivered to the Trustee as dividend or distribution or bonus or rights in respect of such deposited stock; but shall not include any stock, security, dividend, distribution, bonus, rights or property received in respect of such deposited stock upon the dissolution or merger of any of the Companies or consolidation of any of the Companies with any other corporation. "Stock dividends" issued in whole shares shall be added to the principal of the units held hereunder.

Article XIX

Counterparts

Section 1. This Agreement and Declaration of Trust may be executed in four counterparts, each one of which so executed shall be deemed to be an original, but such counterparts shall together constitute but one and the same instrument. The date of this Agreement and Declaration of Trust, to wit: April 16, 1927, the first mentioned date of this Agreement and Declaration of Trust, is intended as the date for the identification hereof and is not intended to indicate that it was executed and delivered on said date, nor that the Collateral Trustee Shares were authorized on or before said date, this Agreement and Declaration of Trust being executed and delivered as of the date of the acknowledgment hereof.

IN WITNESS WHEREOF the Depositor and the Trustee have caused their common seals to be hereunto affixed as of the day and year first above written; and the parties of the third part, from time to time, will conclusively express their assent thereto by accepting the Certificates to be issued hereunder.

New England Investment Trust, Incorporated.
Depositor.

By Clifton K. Wells,
President.

Attest:
William G. Burns,
Clerk.

Liberty National Bank in New York.
By F. E. Perkins,
Trust Officer.

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS.

On this Sixteenth of April, 1927, before me personally came CLIFTON K. WELLS, to me known, who being by me duly sworn did depose and say that he is President of the NEW ENGLAND INVESTMENT TRUST, INCORPORATED, one of the Corporations described in and which executed the foregoing instrument; that he knows the corporate seal of said Corporation; that the seal affixed to said instrument was so affixed by authority of the Board of Directors of said Corporation, and that he signed his name thereto as such officer by like authority.

JAMES M. SWIFT,
Notary Public.

DECLARATION OF TRUST

BOND INVESTMENT TRUST

THIS DECLARATION OF TRUST made this first day of May, in the year nineteen hundred and twenty-three, by Albert H. Beck of Wayland, W. Eugene McGregor of the City of Newton, both in the County of Middlesex; Andrew J. Peters of the City of Boston, in the County of Suffolk; Isaac Sprague of Wellesley and Charles F. Weed of Brookline, both in the County of Norfolk, all in the Commonwealth of Massachusetts, hereinafter referred to as the Trustees,

WITNESSETH:

It is the object of this Declaration of Trust to provide a form of investment which encourages thrift and allows a subscriber for a large or small amount to secure the advantages of high grade securities, responsibility of competent management, and strength of investment provided by diversity:

DESIGNATION

This Trust shall be called the Bond Investment Trust.

I

TRUSTEES' DUTIES AND POWERS

The said Trustees shall hold all the funds and property now or hereafter held by or paid to or transferred or conveyed to them or their successors as Trustees hereunder in trust for the purposes, with the powers and subject to the limitations hereinafter declared, for the benefit of the holders of the certificates of beneficial interest in this Trust, and it is expressly declared that a trust and not a partnership is hereby created, and neither the Trustees

nor the holders of certificates of beneficial interest shall ever be personally liable hereunder as partners or otherwise, but that for all debts the Trustees shall be liable as such to the extent of the Trust Fund only, and in all contracts and instruments creating liability it shall be expressly stipulated that the holders of the certificates of beneficial interest shall not be liable.

POWER OF INVESTMENT

(*a*) The Trustees shall have as full power and discretion as if absolute owners to invest and reinvest the Trust Fund (including any surplus and also income) in personal property, including bonds, obligations secured by mortgage upon real estate, notes and bank acceptances, and the decision of the Trustees as to what is personal property shall be final.

(*b*) They shall have the like power of investment in the securities of the United States of America, or of any state, county, municipality or town therein, or of any foreign government or of any state, city or sub-division of any government.

(*c*) The Trustees may at any time invest in the certificates of beneficial interest hereunder, and may purchase the same at such price, or on such terms as may seem to them advisable.

POWER OF SALE

The Trustees shall have full power and discretion to sell, exchange, transfer and convey from time to time, at public or private sale, any part or all of said Trust Fund upon such terms and conditions as they see fit, and the purchaser from them shall not be responsible for the application of the purchase money, and to invest the proceeds in the same manner and upon the same terms as the original fund.

POWER AS TO REAL ESTATE

The Trustees shall have power to purchase and hold real estate as incidental to the management of the Trust, or as the Trustees may acquire such real estate through the foreclosure of a mortgage or for the protection of an investment. The Trustees may borrow money on any real estate so held by them and may sell and convey the same, and shall have power over such real estate as if they were the absolute owners thereof.

POWER TO BORROW AND PLEDGE

The Trustees shall also have power at any time to borrow money, and to pledge, as collateral security for such loan, any personal property belonging to the Trust Fund provided, however, that no loan shall be contracted for, so that the aggregate amount of such loans outstanding shall at such

time exceed, in the judgment of the Trustees, twenty-five per cent of the total amount of the personal property of the Trust Fund.

EXECUTION OF INSTRUMENTS

The execution of all contracts, of all conveyances and transfers, and of all other instruments relating to the Trust Fund or any part thereof, by any three Trustees, shall always be sufficient. The acting Trustee or Actuary or Treasurer shall have full power to cancel and discharge mortgages, by deed or otherwise, on the payment or satisfaction thereof.

PURCHASERS, ETC., NOT LIABLE

No purchaser, lender, corporation, association, or officer or transfer agent thereof, dealing with the Trustees, shall be bound to make any inquiry concerning the validity of any sale, pledge, mortgage, loan, or purchase purporting to be made by the Trustees, or be liable for the application of money paid or loaned.

RECORDS

The Trustees declare that they have selected as their Depositary, Harris, Forbes & Company, Inc., of Boston, and in the event of the resignation of said Harris, Forbes & Company, Inc., said Trustee shall constitute as their Depositary some National Bank or Trust Company doing business in the City of Boston. Such Depositary shall have the custody of this Declaration of Trust, of any and all instruments altering or adding to the same, or terminating the Trust, or containing the resignation of one or more Trustees, or appointing one or more Trustees to fill vacancies, or appointing a Trustee attorney for a co-Trustee, or otherwise affecting this Declaration of Trust, or the duties, powers, or liabilities of the Trustees. Said Harris, Forbes & Company, Inc., or any successor as Depositary shall be bound to deliver on demand to any new Depositary selected by the Trustees, all such documents and records, and also to record, at the request of the Trustees, any such document in any place of public record selected by them, whereupon the duty of such Depositary as to such recorded document, and its liability therefore hereunder, shall cease, and it shall deliver to the Trustees all papers relating to the same. Copies of all documents and records in the custody of such Depositary, duly certified, and certificates as to who are the Trustees, or holders of certificates of beneficial interest, or the like, duly signed by the President, Treasurer, or Actuary of such Depositary, shall be conclusive upon all questions as to title or affecting the rights of third persons, and in general shall have all the effect of their originals.

MANAGEMENT AND COMPENSATION

The Trustees may from time to time hire suitable offices for the transaction of the business of the Trust, appoint, remove or reappoint such officers or agents (including a Depositary) and also agents to sell certificates of beneficial interest herein as they may think best, define their duties, and fix their compensation. The Trustees may employ one of their own number for special services to the Trust, and pay him therefore an amount in addition to his services as Trustee. The compensation of the Trustees as such shall not at any time exceed *five per cent of the gross income of the Trust Fund, and one per cent of the amount distributed or conveyed upon final distribution or conveyance.*

DIVIDENDS—SURPLUS

The Trustees shall declare dividends from the net income of the Trust Fund among the holders of certificates of beneficial interest semi-annually or oftener, if convenient to the Trustees, and their decision as to *amount* of dividends and as to using therefor any portion of the Surplus Fund shall be final. They may set aside from time to time such portion of the net income as shall not be required for dividends for a *Surplus Fund.*

POWER TO DECIDE BETWEEN INCOME AND CAPITAL

The Trustees may charge all brokers' and agents' commissions, and the expenses of organization of the Trust, to Income or Capital, as they see fit. They shall have the right to treat as income such portion of the price of securities bought or sold between dividend days as fairly represents accrued dividends reckoned by way of interest. In general their decision as to what constitutes Capital or Income, or shall be credited or debited to Capital or Income, shall be final.

ANNUAL ACCOUNT

The Trustees shall render an account annually or oftener, if convenient to them, and shall, upon request, deliver or mail a copy to each holder of a certificate of beneficial interest.

SELECTION OF TRUSTEES—RESIGNATION—VACANCY

The Trustees hereunder shall serve for the following terms: Albert H. Beck and W. Eugene McGregor for the term of one year from May 1st, 1923; Andrew J. Peters and Isaac Sprague for the term of two years from May 1st, 1923; and Charles F. Weed for the term of three years from May

1st, 1923. The Trustees shall meet on the second Wednesday of April of each year, and shall then select the successors to those Trustees whose terms expire on the first day of May next succeeding. Such Trustees so selected shall serve for the term of three years from the first day of May next succeeding, and until their successors have been duly chosen and have qualified by accepting this Trust by a written instrument signed and sealed by them and acknowledged in the manner prescribed for the acknowledgment of deeds. Such instrument may be recorded in the Registry of Deeds for the County of Suffolk or deposited with the Depositary designated hereunder, or such Depositary as the Trustees shall from time to time select. A document signed by either the President, Vice-President, Treasurer or Actuary of such Depositary shall be conclusive on all questions as to title or effecting the rights of third persons.

Any Trustee may resign his trust by written instrument signed and sealed by him and acknowledged in the manner prescribed for the acknowledgment of deeds, and recorded or deposited as above provided.

Any vacancy occurring from any cause at any time in the number of said Trustees shall be filled by the remaining Trustees. Until such vacancy is filled, or while any Trustee is absent from the Commonwealth of Massachusetts without designating a Co-Trustee as Attorney, or physically or mentally incapable, by reason of disease or otherwise, the other Trustees shall have all the powers hereunder, and the certificate of the other Trustees of such vacancy, absence or incapacity shall be conclusive. In case of such vacancy or of appointment of a new Trustee or Trustees, the Trust Fund shall immediately vest in the remaining Trustees or in the new Trustee or Trustees jointly with the remaining Trustees, as the case may be.

And any Trustee may, by power of attorney, delegate his powers, for a period not exceeding six months at any one time, to any other Trustee or Trustees hereunder, provided that in no case shall less than three Trustees personally exercise the other powers hereunder (except in case of discharge of mortgages, as hereinbefore provided).

The term "Trustees" used in this agreement shall be deemed to mean those who are or may be Trustees for the time being.

The written approval by Harris, Forbes & Company, Inc., their successors or assigns, of the election of any Trustee or Trustees hereunder shall be filed with the Depositary before any such Trustee or Trustees shall be qualified to serve.

TRUSTEES' LIABILITY—NO BOND REQUIRED

Each Trustee shall be responsible only for his own wilful and corrupt breach of trust, and not for any honest error of judgment, and not one for another. No Trustee shall be required to give a bond.

TRUSTEES' SEAL

The Trustees may adopt and use a common seal.

DEALINGS WITH HARRIS, FORBES & COMPANY, INC., OF BOSTON, OR WITH OTHER PARTIES, IN WHICH ANY OF THE TRUSTEES OF SAID CORPORATION ARE INTERESTED OR WITH WHICH THEY HAVE CLOSE RELATIONS.

This Trust is formed under the auspices of Harris, Forbes & Company, Inc., and it is expected that it will at all times have the benefit of its experience and advice, and that it shall from time to time without restrictions purchase through or from said corporation or from other parties with which said corporation has or the Trustees or any of them have special relations, any investments which in other respects are authorized by this declaration. The Trustees are authorized to deal with Harris, Forbes & Company, Inc., of Boston, Harris, Forbes & Company, New York, and the Harris Trust and Savings Bank, Chicago, or any of them, or their successors, in their uncontrolled discretion, even though some or all the Trustees may at the time be, as two of the Trustees in fact now are, interested in said concerns without being subject themselves and without subjecting the concerns in which they are so interested to any of the limitations, obligations or liabilities arising from the fact that they are so interested.

II

RIGHTS AND LIABILITIES OF HOLDERS OF CERTIFICATES OF BENEFICIAL INTEREST

Notices of any meeting of the holders of certificates of beneficial interest shall be given by notice mailed seven days before the date of such meeting to each holder of such certificates at his address on the books of the Trustees.

The Trustees shall issue a certificate of beneficial interest in such form as they shall deem best in denomination of One Hundred Dollars ($100) or multiple thereof for an interest in the Trust Fund at such price as shall be determined by them, but no certificate of beneficial interest shall be issued for any less sum than One Hundred Dollars par value. In case of the loss or destruction of a certificate the Trustees may issue a duplicate thereof under such conditions as the Trustees may determine.

TRANSFER OF CERTIFICATES OF BENEFICIAL INTEREST

A certificate of beneficial interest may be transferred on the books of the Trustees by the person named therein, or his legal representative, upon the surrender of such certificate, and a new certificate of beneficial interest shall be issued to the transferee.

NO ASSESSMENT OR PERSONAL LIABILITY

No assessment shall ever be made upon the holders of certificates of beneficial interest, nor shall they ever be personally liable in any event, or have any rights hereunder except as herein defined.

BOOKS OPEN TO INSPECTION

The books of the Trustees shall be open at all reasonable times to the inspection of the holders of certificates of beneficial interest.

INCREASE OF CAPITAL—RIGHTS

The Trustees may from time to time at their discretion, invite and receive payments for certificates of beneficial interest in the Trust Fund in cash or in property, as hereinbefore provided, for the purposes of increasing the capital of the Trust Fund. All payments for and all new holders of certificates of beneficial interest shall be subject to the terms of this Declaration of Trust.

III

Duration and Termination of the Trust

At and upon the expiration of *twenty years after the death of the last survivor of the Trustees* named hereunder and of Andrew J. Peters, Jr., Alanson T. Peters, John P. Peters, Bradford Peters, Robeson Peters and David McC. Peters, sons of Andrew J. Peters, or at such earlier time as hereinafter provided, the Trustees shall terminate this Trust by dividing the Trust Fund or the proceeds thereof among the holders of certificates of beneficial interest, being first duly indemnified for any outstanding obligation or liability, and shall thereupon be forever discharged.

ALTERATION OF TRUST

The Trustees may, with the consent of three-fourths in interest of the holders of certificates of beneficial interest, alter or add to this Declaration, or terminate this Trust if it seems to them judicious so to do. The Trustees may, without the consent of the holders of certificates of beneficial interest, convey the Trust Fund to new or other Trustees, or to a corporation, being first duly indemnified for any outstanding obligation or liability. The instrument setting forth such alteration, addition, termination, or conveyance shall be signed by at least three of the Trustees and recorded in said Registry of Deeds, or deposited with such Depositary as the Trustees shall select. Such instruments shall be conclusive of the existence of all facts and of

compliance with all prerequisites necessary to the validity of such alteration, addition, termination, or conveyance, whether stated in such instrument or not, upon all questions as to title or affecting the rights of third persons.

PROVIDED, HOWEVER, and it is especially declared, that the Trustees shall be under no obligation to terminate this Trust or convey the Trust Fund, except as hereinbefore provided.

IN TESTIMONIUM

IN WITNESS WHEREOF, the said Trustees have hereunto set their hands and seals the day and year above written in duplicate.

	ALBERT H. BECK	(SEAL)
Signed and sealed	W. EUGENE MCGREGOR	(SEAL)
in presence of	ANDREW J. PETERS	(SEAL)
JOHN R. MACOMBER.	ISAAC SPRAGUE	(SEAL)
	CHARLES F. WEED	(SEAL)

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, ss. Boston, May 1, 1923

Then personally appeared the above-named Albert H. Beck, W. Eugene McGregor, Andrew J. Peters, Isaac Sprague and Charles F. Weed, and acknowledged the foregoing instrument to be their free act and deed,

Before me,

JOHN R. MACOMBER, *Notary Public.*
[NOTARIAL SEAL]

INVESTMENT TRUST AGREEMENT

AGREEMENT made this 1st day of May, 1926, between BROOKE, STOKES & CO., a copartnership, parties of the first part, hereinafter called "Bankers"; GIRARD TRUST COMPANY, party of the second part, hereinafter called "Trustee"; and the holders of Philadelphia Joint Stock Trust Certificates issued or to be issued under this agreement, hereinafter called "Investors."

WHEREAS, the purpose of this agreement is to constitute the Girard Trust Company, Trustee for the holders of the Philadelphia Joint Stock Trust Certificates hereinafter referred to, and to define the rights of the said holders.

NOW, THEREFORE, THIS AGREEMENT WITNESSETH:

1. The Trustee will hold the cash and securities delivered to it by Bankers and any investments and reinvestments hereafter made, In Trust

for the benefit of Investors under and subject to all the terms and conditions of this agreement. The word "securities" whenever used in this agreement shall include only shares of stock of Joint Stock Land Banks, Bonds of Joint Stock Land Banks, and Bonds of the United States Government.

2. The Trustee shall execute and deliver from time to time to Bankers, certificates in the form herein provided, representing shares of a par value of $100 each.

The first issue of certificates shall be issued upon receipt by Trustee of an amount of cash and/or securities at their market value, or the fair value as determined in Article 11, delivered to the Trustee, equal to the aggregate par value of such certificates, less five per cent., representing a commission to Bankers.

Additional certificates may be issued as follows: The Trustee shall execute and deliver to Bankers certificates representing shares of a par value of $100 each at the book value of the shares, upon receipt by Trustee of cash and/or securities at their market value, or the fair value as determined in Article 11, equal to the aggregate product of the book value multiplied by the par value of the shares represented by the certificates then being issued; the book value shall, for the purpose of the issue of such additional certificates, be determined by the net amount of cash held by the Trustee, plus the market value or the fair value of the securities deposited with the Trustee divided by the total number of shares previously outstanding, which book value so ascertained shall be certified by Bankers to the Trustee, which may accept the same as final and conclusive.

3. The Certificates to be issued by the Trustee and the form of assignment to be annexed thereto shall be substantially in the following form:

PHILADELPHIA

JOINT STOCK TRUST CERTIFICATE

No..... Shares.....

Girard Trust Company hereby certifies that..... is entitled to..... shares of par value of $100 each in the Philadelphia Joint Stock Trust.

This certificate is one of an issue of certificates designated Philadelphia Joint Stock Trust Certificates, unlimited in principal amount, and represents a beneficial interest, as indicated by the number of shares, in the Joint Stock Land Bank Stocks, Cash, Joint Stock Land Bank Bonds or Government Bonds of the United States of America held by Girard Trust Company, Trustee, under and subject to the terms of a certain Agreement dated May 1, 1926, between Brooke, Stokes & Co., Bankers, Girard Trust Company, Trustee, and the holders of said certificates.

For a description of the nature and extent of the security, the rights of

the certificate holders, the terms upon which the securities are deposited and withdrawn, and enumeration of the powers of the Bankers, reference is made to said Agreement on file with the Trustee.

This certificate is transferable on the books of the Trustee by the registered owner or duly authorized attorney. This certificate may in part or in its entirety be called at any time at the option of the Bankers on notice of thirty (30) days, mailed by Trustee to the registered holder at address filed with Trustee.

Bankers, as managers, reserve the right to direct the Trustee to sell or exchange any securities held in this Trust when in their opinion it is for the best interest of the holders of certificates. The registered holder hereof is entitled in the form of a dividend hereon to a pro rata share of any dividends or interest received by the Trustee from deposited securities held by it after deduction therefrom of its compensation, taxes, the expenses of the trust and the commission of the Bankers, at such times and in such amounts as said Bankers may in writing direct the Trustee to pay. Upon liquidation of the securities held by the Trustee the registered holder is entitled, after deduction of taxes, charges, expenses and commissions as set forth in the above-mentioned agreement, to his pro rata share of the proceeds on account of the liquidation of the aggregate par value represented by this certificate.

The Trustee assumes no responsibility save that of depositary, and shall not be held liable for any action taken when so requested in writing by Bankers.

WITNESS the subscription and corporate seal of the Trustee at Philadelphia this .....

GIRARD TRUST COMPANY, Trustee

By.....
Vice-President

Attest:

.....
Secretary

ASSIGNMENT

KNOW ALL MEN BY THESE PRESENTS, that.....
.....
for value received, has bargained, sold, assigned, and transferred, and by these presents do.... bargain, sell, assign, and transfer unto .....
..... shares of the PHILADELPHIA JOINT STOCK TRUST standing in ..... name on the books of the GIRARD TRUST COMPANY, TRUSTEE, and do hereby constitute and appoint .....
true and lawful attorney, irrevocable, for.....and in.....

name and stead, but to.....use, to sell, assign, transfer and set over, all or any part of the said shares, and for that purpose to make and execute all necessary acts of assignment and transfer, and one or more persons to substitute with like full power, hereby ratifying and confirming all that.....said attorney, or.....substitute or substitutes, shall lawfully do by virtue hereof.

In Witness Whereof.....have hereunto set.....hand and seal the.....day of.....19.....

.....(Seal)

Signature Guaranteed

Sealed and Delivered in the
presence of

.....

4. Dividends upon certificates issued hereunder shall be payable by Trustee but only out of earnings in its possession as and when declared by Bankers. Bankers shall declare dividends payable twice yearly in such amount as in their opinion is fair and reasonable after setting aside out of earnings a sufficient amount to provide for expenses, taxes, compensation and commissions provided for in this Agreement, any depreciation in the value of the securities held by the Trustee, and a reasonable surplus.

5. Bankers may deliver to Trustee, at any time, accompanied with Power of Attorney duly executed in blank, certificates for cancellation. Certificates so delivered shall be cancelled by the Trustee. The Trustee shall deliver to Bankers in exchange for such certificates, cash or securities at their market value as designated by Bankers equal to the existing book value, less One Dollar for each share, of the shares represented by the certificates so delivered to Trustee, said book value determined under Article 6 hereof.

6. At any time when the trust estate consists in part of uninvested cash, the Trustee upon written request of Bankers shall call for redemption on thirty (30) days' notice all or any part of the shares represented by the certificates outstanding to an amount not in excess of the uninvested cash in the hands of the Trustee. The redemption price of the shares so called shall be fixed by Bankers and shall in no case be less than the existing book value of the shares. The book value of the shares shall be determined by the market value of the cash and securities on deposit with the Trustee and composing the trust estate divided by the number of shares outstanding. Such notice shall specify the redemption prices, the time and place fixed for redemption (the place to be the office of the Trustee, and the time to be fixed by the Bankers), and in case of the redemption of part but not all of the shares, the serial number of the certificates and the amount of shares thereof to be redeemed. If less than the entire amount of outstanding shares are to be called, the shares to be redeemed shall be selected by the Trustee by

lot. All certificates representing shares in whole or in part so redeemed shall immediately be cancelled by the Trustee, and in event of only part of the shares represented by said certificates being redeemed, new certificates will be issued by the Trustee to the registered holder for the balance of the shares not so redeemed.

If at any of the times fixed for redemption any of the shares so called for redemption are not presented for payment, Trustee shall continue to hold in a separate fund a sum representing the called price of the shares for the account of the registered owner thereof, which sum shall be payable to the registered owner upon duly presenting certificate or certificates representing the shares at any time thereafter, but no dividends shall accrue or be payable upon the shares after the redemption date.

7. The trust estate may be liquidated at any time in the discretion of the Bankers. If the Bankers determine that liquidation is for the interest of Investors, Bankers shall notify Trustee in writing of their intention to liquidate the trust estate, and shall thereupon proceed to sell the securities in the trust estate at such prices as in the discretion of the Bankers is advisable. The Trustee upon receipt of the selling price shall deliver the securities so sold to the Bankers or upon its order to the purchaser. Upon completion of liquidation, the Trustee shall notify Investors in writing of the amount due them upon liquidation. Such notice shall fix a time when certificates shall be presented to the Trustee for payment. All certificates so paid shall be cancelled by the Trustee. The Trustee shall hold the sums representing the shares of certificate holders who do not present their certificates for payment for the account of such holders, which shall be payable at any time thereafter when said certificates are presented to the Trustee. After the date fixed for such liquidation, the rights of Investors under this agreement shall cease, and such holders shall be entitled only to their share of the liquidated funds held on deposit by the Trustee.

8. All stocks held in the trust estate shall be registered in the name of the Bankers or its nominee and shall be accompanied by proper power of attorney to enable the Trustee to make transfer, and with adequate assurances or guaranties to the Trustee that all dividends will be paid to it, and with full power in the Trustee to transfer such stock or stocks into its own name at any time. All bonds, unless in bearer form, shall be registered in the name of the Trustee. If assessments shall be made on shares of stock deposited under this agreement, the Trustee shall apply cash in its hands and shall sell such amount of the securities held under this agreement as will yield a sum sufficient to pay such assessments. Bankers will pay to Trustee before the issue by it of certificates hereunder, the amount of any stamp taxes that may be payable on the certificates.

9. The Trustee shall be entitled to a reimbursement of taxes and expenses, paid by it, and to reasonable compensation for its services out of any monies coming into its possession before otherwise disbursed. Such compensation shall be agreed upon between the Trustee and Bankers. The Bankers shall

be entitled to a commission of Five Dollars ($5.00) upon the original issue of each share, as provided in Section 2. This commission is to reimburse the Bankers for obtaining the capital for the trust estate. Said commission shall not be chargeable upon transfers. For their services as managers, their responsibility in recommending the purchase and sale of securities for the trust estate, and in studying the value of such securities from time to time, the Bankers shall be entitled to a commission not exceeding five per cent. (5%) on the net income from the trust estate payable each year during which the trust continues. The words "net income" as used in this section shall include all interest and dividends received by the trust estate, and all profits realized upon the sale of securities, less all losses incurred upon the sale of securities held in the trust estate. For the actual purchase or sale of securities, Bankers shall be entitled to charge a commission of one per cent. (1%); provided, however, that if in the opinion of Bankers it is of advantage to Investors to sell a larger amount of the securities composing the trust estate than can be readily absorbed in the open market, a wholesale offering of such securities may be made by Bankers through other brokers or through a syndicate or selling group, and in such event the Bankers or such syndicate or selling group may purchase such stock or securities at not less than ninety-four per cent. (94%) of the offering price to the public. In all such cases where Bankers sell such stock through other brokers, they may allow out of the above mentioned discount five per cent. to other brokers, retaining a one per cent. wholesale selling commission for themselves; but if Bankers themselves retail such stock or securities, then they may participate solely or partially in the entire discount. All commissions of Bankers and Trustee, except the Bankers' purchasing and selling commissions, shall in so far as possible be paid out of income.

10. Bankers shall have the power to direct the Trustee to sell or exchange any securities held in this trust or to purchase other securities when in the opinion of Bankers it is for the best interests of the holders of certificates so to do. Bankers shall have the power to sell to the trust estate securities owned by them individually, at the market value thereof, whether or not such sale or sales realize a profit to Bankers. Bankers shall have all other powers not expressly mentioned herein that may be necessary or incident to the management of the trust.

11. Whenever it is necessary to determine the market value or the fair value of a security or securities for any purpose under the terms of this agreement, such values shall be determined as follows: (*a*) The actual market value as determined by current sales, if there is an active market for the security; (*b*) the mean between the bid and asked price, if no current sales have been made; (*c*) in the absence of current sales or active bid and asking prices the fair value shall be taken and determined by the Bankers from information available to them based upon the earnings, dividend rate and book value of the security, but such market value shall in no case be less than the bid price nor more than the asked price.

12. Once during each calendar year a statement of the assets and of the earnings of the trust estate shall be prepared by the Bankers and filed with the Trustee, which may be audited if desired by the Trustee, the Bankers, or any Investors. The preparation of all said statements shall be at the expense of the trust estate. The books of the trust shall at all reasonable times be open to the Bankers for inspection. A copy of said statement shall be sent by the Bankers to any Investor upon request.

13. The Trustee shall have full power when and as directed in writing by the Bankers to sell or exchange any and all of the securities composing the trust estate from time to time, and to invest and reinvest the proceeds of any sale and any cash held in the trust estate in other securities. The power to exchange securities herein granted to the Trustee shall include the power to exchange securities in connection with any merger, consolidation or otherwise.

14. The Trustee accepts the trusts of this agreement and agrees to execute them upon the following terms, to which Investors agree:

The Trustee shall not be responsible in any manner for the recitals contained herein. The Trustee shall not be responsible to see to the application by the Bankers of the proceeds of the sale of certificates, nor shall it be accountable for the use of any certificates delivered to the Bankers. The Trustee shall not be responsible for the validity or extent of the collateral deposited as security under this agreement. The Trustee from time to time under this agreement may acquire and own certificates hereby secured, with the same rights which it might have if not Trustee. The Trustee may advise with legal counsel; and any action under this agreement in good faith by the Trustee in accordance with the opinion of counsel shall be conclusive upon all the holders of any certificates hereby secured. The Trustee shall have a first lien upon the trust estate for its counsel fees, reasonable expenses and compensation. The Trustee shall be protected in acting upon any letter or document signed by the Bankers, or in accepting any securities or document believed by it to be genuine. The Trustee shall not be deemed to be the agent of the Bankers either in the acceptance or performance of the trusts hereunder, and shall not be responsible for any neglect or default of the Bankers.

15. The Trustee may at any time resign this trust by written notice mailed to the Bankers, which notice shall be mailed thirty days before the resignation is to take effect, and in the case of such resignation or removal or incapacity of the Trustee for any reason, a successor Trustee may be appointed by the Bankers by an instrument in writing delivered to such new Trustee, notification thereof being given to the Investors and to the predecessor Trustee. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within thirty days after the vacancy shall have occurred in the office of the Trustee, the holder of any certificate outstanding hereunder or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may there-

upon after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee. The Trustee ceasing to act shall execute instruments transferring to the new Trustee all the estate, rights and powers hereunder, and shall deliver over the property hereby pledged to the new Trustee, and the new Trustee shall thereupon succeed to all the rights, duties and obligations of the old Trustee.

16. The Bankers may resign from the office of bankers and managers of this trust on ninety days' notice to the Trustee and Investors, in which case new bankers or managers may be appointed by a majority of the holders of the certificates by a written request addressed to the Trustee. In such event if any Investors are dissatisfied with the appointment of new bankers, they may within ten days after notice of such appointment, request the Trustee to liquidate their certificates, and the Trustee shall thereupon liquidate or sell so much of the trust estate as may be necessary to pay off and retire certificates of dissenting holders at a fair valuation. Pending such liquidation no change of investments shall be made in the trust estate, except sales for the purpose of the liquidation itself.

17. The Bankers shall not be responsible for any matter or thing except as hereinbefore specifically set forth, except the same be caused by their negligence or bad faith. In the event of malfeasance in office, unfair or insufficient management, the Bankers may be removed by a majority vote of the Investors lodged with the Trustee. In the event of failure to properly perform its duties under this agreement, the Trustee may be removed by a majority vote of the Investors lodged with the Bankers. Investors holding twenty-five per cent. or more of the shares outstanding may on evidence satisfactory to the Trustee or to the Bankers, require the Trustee to forward to all holders of certificates a request for a vote asking for the removal of the Bankers or of the Trustee as above specified.

In Witness Whereof first party has hereunto set its hand and seal, and the second party has caused this agreement to be signed by its proper officers and its corporate seal to be hereunto affixed duly attested, the day and year first above written.

BROOKE, STOKES & CO.

Francis M. Brooke (Seal)
Member of the Firm

Witness:
W. F. Lester

GIRARD TRUST COMPANY

W. N. Ely
Vice-President

Attest:
S. W. Morris
Secretary

STANDARD INVESTING CORPORATION CHARTER

THIS IS TO CERTIFY:

I

We, the subscribers, JOHN FOSTER DULLES, HORACE G. REED and STODDARD M. STEVENS, JR., the post-office address of all of whom is No. 49 Wall St., New York, N. Y., all being of full legal age, do, under and by virtue of the General Laws of the State of Maryland authorizing the formation of corporations, associate ourselves with the intention of forming a corporation.

II

The name of the corporation (which is hereinafter called the "Corporation") is

STANDARD INVESTING CORPORATION

III

The purposes for which the Corporation is formed and the business or objects to be carried on or promoted by it are as follows:

(1) To acquire by purchase, subscription, contract or otherwise, and to hold for investment or otherwise, sell, exchange, mortgage, pledge or otherwise dispose of, or turn to account or realize upon, and generally to deal in and with all forms of securities, including, but not by way of limitation, shares, stocks, bonds, debentures, notes, scrip, mortgages, evidences of indebtedness, certificates of indebtedness and certificates of interest issued or created in any and all parts of the world by corporations, associations, partnerships, firms, trustees, syndicates, individuals, governments, states, municipalities or other political or governmental divisions or sub-divisions, or by any combinations, organizations or entities whatsoever, or issued or created by others, irrespective of their form or the name by which they may be described, and all trust, participation and other certificates of, and receipts evidencing, interest in any such securities, and to issue in exchange therefor or in payment thereof, in any manner permitted by law, its own stock, bonds, debentures or its other obligations or securities, subject to the provisions of this Charter, or to make payment therefor by any other lawful means of payment whatsoever; to exercise any and all rights, powers and privileges of individual ownership or interest in respect of any and all such securities or evidences of interest therein, including the right to vote thereon and to consent and otherwise act with respect thereto; to do

any and all acts and things for the preservation, protection, improvement and enhancement in value of any and all such securities or evidences of interest therein, and to aid by loan, subsidy, guaranty or otherwise those issuing, creating or responsible for any such securities or evidences of interest therein; to acquire or become interested in any such securities or evidences of interest therein, as aforesaid, by original subscription, underwriting, loan, participation in syndicates or otherwise and irrespective of whether or not such securities or evidences of interest therein be fully paid or subject to further payments; to make payments thereon as called for or in advance of calls or otherwise, and to underwrite or subscribe for the same conditionally or otherwise and either with a view to investment or for re-sale or for any other lawful purpose.

(2) To endorse or guarantee the payment of principal and/or interest or dividends upon, and to guarantee the performance of sinking fund or other obligations, of any stocks, bonds, obligations or other securities or evidences of indebtedness, and to guarantee in any way permitted by law the performance of any of the contracts or other undertakings in which the Corporation may otherwise be or become interested, of any corporation, association, partnership, firm, trustee, syndicate, individual, government, state, municipality or other political or governmental division or subdivision, domestic or foreign, or of any combination, organization or entity, domestic or foreign.

(3) To enter into, make, perform and carry out or cancel and rescind contracts of underwriting of the securities of any corporation, association, partnership, firm, trustee, syndicate, individual, government, state, municipality or other political or governmental division or subdivision, domestic or foreign, or of any combination, organization or entity, domestic or foreign, and to act as manager of any underwriting or purchasing or selling syndicate.

(4) To make, enter into and carry out any arrangements, which may be deemed to be for the benefit of the Corporation, with any corporation, association, partnership, firm, trustee, syndicate, individual, government, state, municipality or other political or governmental division or subdivision, domestic or foreign, or of any combination, organization or entity, domestic or foreign; to obtain therefrom or otherwise to acquire by purchase, lease, assignment or otherwise, any powers, rights, privileges, immunities, franchises, guarantees, grants and concessions; to hold, own, exercise, exploit, dispose of and realize upon the same and to undertake and prosecute any business dependent thereon; and to cause to be formed, to promote, and to aid in any way in the formation of any corporation, association or organization of any kind, domestic or foreign, for any such purposes.

(5) To cause to be formed, merged or reorganized or liquidated, and to promote, take charge of and aid in any way permitted by law, the

formation, merger, liquidation or reorganization of any corporation, association or organization of any kind, domestic or foreign.

(6) To manufacture, produce, purchase or otherwise acquire, sell or otherwise dispose of, import, export, distribute, deal in and with, whether as principal or agent, goods, wares, merchandise, and materials of every kind and description, whether now known or hereafter to be discovered or invented.

(7) To purchase, take on lease or in exchange, hire, or otherwise acquire, hold, own, possess, equip, improve, develop, deal in, sell, convey, assign, mortgage, pledge or otherwise encumber any and all real and personal property of every kind and description and property partaking of the nature of either real or personal property, and rights, estates, interests, franchises, licenses and privileges in such property, real, personal or mixed, wheresoever situated or located within any state, territory, dependency or colony of the United States or its insular possessions or in the District of Columbia or in any foreign country.

(8) To cause or allow the legal title and/or any estate, right or interest in any property, whether real, personal, or mixed, owned, acquired, controlled or operated by the Corporation, to remain or to be vested or registered in the name of or operated by any person, firm, association or corporation, domestic or foreign, formed or to be formed, either upon trust for or as agents or nominees of this Corporation or upon any other proper terms or conditions which the Board of Directors may consider for the benefit of the Corporation.

(9) To undertake, conduct, assist, promote and participate in every kind of commercial, industrial, mercantile or mining enterprise, business, undertaking, venture, or operation in any state, territory, dependency or colony of the United States or its insular possessions or in the District of Columbia or in any foreign country.

(10) To enter into any legal arrangement for sharing profits, union of interest, reciprocal concession, or cooperation with any person, partnership, association, combination, organization, entity or corporation carrying on or proposing to carry on any business which this Corporation is authorized to carry on, or any business or transaction deemed necessary, convenient, or incidental to carrying out any of the objects of this Corporation.

(11) To act in any and all parts of the world in any capacity whatsoever as commercial or business agent or representative, general or special for any corporation, association, partnership, firm, trustee, syndicate, individual, government, state, municipality or other political or governmental division or sub-division, domestic or foreign, or of any combination, organization or entity, domestic or foreign.

(12) To borrow money; to issue bonds, debentures or obligations secured or unsecured, of the Corporation from time to time, for moneys

borrowed or in payment for property purchased or for any of the other objects or purposes of the Corporation; to secure the same by mortgage or mortgages upon, or by deed or deeds of trust of, or by pledge of, any or all of the property, real and personal, of the Corporation wheresoever situated, acquired or to be acquired; and to sell or otherwise dispose of any or all such bonds, debentures or obligations in such manner and upon such terms as may be deemed judicious; to confer, in any manner permitted by law, upon the holders of any bonds, debentures or obligations of the Corporation, secured or unsecured, the right to convert the principal thereof into stock of the Corporation upon such terms and conditions as may be deemed advisable; to loan money with or without collateral or other security; to create, issue, sell and otherwise dispose of for money, property or other considerations deemed useful for the purpose of the Corporation, certificates entitling the holder to an interest in all or any part of the securities from time to time held by the Corporation; and to permit the holders of any bonds, debentures or obligations of the Corporation, secured by specific securities, to share in the income of such securities in lieu of, or in addition to, a fixed return on their investment.

(13) To apply for, obtain, register, purchase lease or otherwise acquire, and to hold, own, use, exercise, develop, operate and introduce, and to sell, assign, grant licenses in respect of, or otherwise dispose of, any patents and inventions, improvements and processes used in connection with or secured under Letters Patent of the United States or any dependency, colony or insular possession of the United States or of any foreign government, trade marks and trade names, and to acquire, use, exercise, or otherwise turn to gain licenses in respect of any such patents, inventions, processes and the like, or any such property rights.

(14) To purchase, hold, sell, transfer, reissue or cancel shares of its own capital stock or its own securities or obligations in the manner and to the extent now or hereafter authorized or permitted by the laws of the State of Maryland.

(15) To merge, amalgamate or consolidate, in accordance with law, with any other corporation or corporations duly authorized by law to carry on, in whole or in part, any kind of business of a nature the same or similar to any business which this Corporation is duly authorized by law to carry on; and to form, organize, promote, manage, control and maintain and dissolve, merge or consolidate one or more corporations in the shares or securities of which this Corporation may be or become interested, for such purpose or purposes as may aid or advance the objects and purposes of this Corporation.

(16) To undertake, contract for or carry on any business incidental to or in aid of, or advantageous in pursuance of, any of the objects or purposes of the Corporation.

(17) To do any of the things hereinbefore enumerated for itself or for account of others and to make and perform contracts for doing any part thereof.

(18) To conduct its business in all or any of its branches so far as permitted by law in all states, territories, dependencies and colonies of the United States and its insular possessions and the District of Columbia and in foreign countries; to maintain offices and agencies either within or without the State of Maryland; and as may be requisite in the convenient transaction of its business or conduct of its operations, to purchase or otherwise, acquire, hold, own, mortgage, sell, convey or otherwise dispose of real and personal property of every class and description in any of the states, districts, territories, dependencies, colonies, or insular possessions of the United States, and in any and all foreign countries, subject always to the laws of such state, district, territory, dependency, colony, insular possession or foreign country.

(19) In general, to do any or all of the things hereinbefore set forth, and such other things as are incidental or conducive to the attainment of the objects and purposes of the Corporation, as principal, factor, agent, contractor or otherwise, either alone or in conjunction with any person, firm, association or corporation; and in carrying on its business and for the purpose of attaining or furthering any of its objects, to enter into, make, perform and carry out contracts with any corporation, association, partnership, firm, trustee, syndicate, individual, government, state, municipality or other political or governmental division or subdivision, domestic or foreign, or of any combination, organization or entity, domestic or foreign, or any other body whatsoever; and to do such acts and things, and to exercise any and all such powers to the same extent as a natural person might or could lawfully do to the full extent authorized or permitted to a corporation under any laws that may be now or hereafter applicable or available to the Corporation.

The foregoing clauses shall each be construed as purposes, objects and powers, and the matters expressed in each clause, shall, except as otherwise expressly provided, be in nowise limited by reference to, or inference from, terms of any other clause, but shall be regarded as independent purposes, objects and powers and the enumeration of specific purposes, objects and powers shall not be construed to limit or restrict in any manner the meaning of general terms or the general powers of the Corporation now or hereafter conferred by the laws of the State of Maryland, nor shall the expression of one thing be deemed to exclude another, although it be of like nature, not expressed.

Nothing herein contained shall be construed as giving the Corporation any rights, powers or privileges not permitted to it by law.

IV

The post-office address of the place at which the principal office of the Corporation in this state will be located is No. 101 East Fayette Street, Baltimore, Maryland. The resident agent of the corporation is J. Bannister Hall, Jr., whose post-office address is No. 101 East Fayette Street, Baltimore, Maryland. Said resident agent is a citizen of the State of Maryland and actually resides therein.

V

The Corporation shall have five Directors, which number may be changed from time to time in such lawful manner as the by-laws of the Corporation shall provide, and James Brown, Ray Morris, Henry R. Hayes, George Murnane and John Foster Dulles shall act as Directors until the first annual meeting of the stockholders, or until their successors are duly chosen and qualified.

VI

The total amount of the authorized capital stock of the Corporation is one hundred and sixty thousand (160,000) shares, without par value, of which fifteen thousand (15,000) shares, without par value, are Convertible Preferred Stock, and one hundred and forty-five thousand (145,000) shares, without par value, are Common Stock.

VII

The following is a description of each class of stock of the Corporation with the preferences, voting powers, restrictions and qualifications of each class:

1. The holders of the Convertible Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, from the surplus or net profits of the Corporation, dividends at the rate of Six dollars ($6.00) per share per annum and no more, payable quarter-yearly on the first days of January, April, July and October in each year. Such dividends on the Convertible Preferred Stock shall be cumulative, but only from January 1, 1928 (except that in case of Convertible Preferred Stock issued after March 31, 1928, the dividends on such stock shall be cumulative only from the first day of the quarter-yearly dividend period in which such stock is issued), so that if thereafter dividends for any past quarter-yearly dividend period (subsequent to the quarter-yearly period ending December 31, 1927) at the rate of Six dollars ($6.00) per share per annum shall not have been paid thereon or funds set apart therefor, the deficiency shall be

fully paid or funds for the payment thereof set apart, but without interest on accumulated dividends, before any dividends shall be paid on or set apart for the Common Stock.

2. The Corporation may redeem the whole or any part of the Convertible Preferred Stock at any time at the option of the Board of Directors upon at least sixty (60) days' previous notice by mail (and by publication if so determined by the Board of Directors) to the holders of record of the Convertible Preferred Stock to be redeemed, given in such manner as may be determined by the Board of Directors, by paying the sum of One Hundred dollars ($100) per share for each share of Convertible Preferred Stock so to be redeemed, plus the sum of Fifteen dollars ($15.00) per share, if the date fixed for redemption thereof shall be on or prior to January 1, 1930, or plus the sum of Ten dollars ($10.00) per share, if the date fixed for redemption thereof shall be subsequent to January 1, 1930, but on or prior to January 1, 1935, or plus the sum of Five dollars ($5.00) per share if the date fixed for redemption thereof shall be subsequent to January 1, 1935; together in each case with an amount equal to Six dollars ($6.00) per share per annum from the date or dates on which the dividends on the Convertible Preferred Stock so to be redeemed became cumulative to the date fixed for the redemption thereof, less the amount of dividends paid thereon for any period or periods during which dividends on such stock were cumulative. In case of the redemption of a part only of the Convertible Preferred Stock issued and outstanding, the Corporation shall designate in such manner as the Board of Directors may determine, the shares so to be redeemed. The Board of Directors shall have full power and authority to prescribe the manner in which and, subject to the limitations and provisions herein contained, the terms and conditions upon which the Convertible Preferred Stock shall be redeemed from time to time. If the aforesaid notice of redemption shall have been duly given and if on or before the redemption date named in such notice the funds necessary for such redemption shall have been set apart so as to be and continue to be available therefor, then notwithstanding that any certificate of Convertible Preferred Stock so called for redemption shall not have been surrendered for cancellation, dividends on the Convertible Preferred Stock so called for redemption shall cease to accrue from and after the date of redemption so designated and all rights with respect to such Convertible Preferred Stock shall forthwith upon such redemption date cease and determine except only the right of the holder to receive the payment on account of such redemption as above provided, but without interest.

3. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Convertible Preferred Stock shall be entitled to be paid the sum of One

Hundred dollars ($100) per share, plus an amount equal to Six dollars ($6.00) per share per annum from the date or dates on which dividends upon the Convertible Preferred Stock became cumulative to the date fixed for the payment thereof, less the amount of dividends paid thereon for any period or periods during which dividends on such stock were cumulative, before any distribution or payment shall be made to the holders of the Common Stock. After the making of such payments to the holders of the Convertible Preferred Stock, the remaining assets and funds of the Corporation shall be divided and paid to or distributed among the holders of the Common Stock according to their respective shares.

4. (*a*) Any holder of Convertible Preferred Stock may at his option at any time and from time to time upon his written request therefor, (but in case his shares or any part thereof shall have been called for redemption, then only on or before the date fixed for such redemption with respect to the shares so called for redemption) convert any or all of the shares of Convertible Preferred Stock held by him into shares of Common Stock of the Corporation at the rate of four (4) shares of such Common Stock for one (1) share of Convertible Preferred Stock, upon the surrender to the Corporation of the certificates for the Convertible Preferred Stock so to be converted and upon compliance with such other reasonable conditions as the Directors may prescribe.

(*b*) Notwithstanding the call of any shares of Convertible Preferred Stock for redemption, the holder of shares of Convertible Preferred Stock so called for redemption may, at his option, convert any thereof into shares of Common Stock as aforesaid, at any date to and including the date fixed for redemption; provided, however, that the Corporation shall not be required, upon the conversion of Convertible Preferred Stock, to deliver certificates of Common Stock while the stock transfer books of the Common Stock of the Corporation are duly closed for any purpose. but the right of conversion shall not be suspended during the period during which such books are closed and certificates for Common Stock issuable upon such conversion shall be delivered forthwith on the opening of such books.

(*c*) Until at least two-thirds of the largest amount of Convertible Preferred Stock ever issued shall have been converted into Common Stock or redeemed or purchased for retirement, written notice of each dividend payable on the Common Stock shall be mailed to each holder of Convertible Preferred Stock not less than twenty (20) days prior to the date fixed for the determination of the holders of Common Stock to whom such dividend shall be payable.

(*d*) The Corporation will at any and all times so long as any of the Convertible Preferred Stock remains outstanding reserve solely and exclusively for such conversion such number of the authorized but un-

issued shares of Common Stock as shall equal four times the number of shares of Convertible Preferred Stock at the time outstanding.

(*e*) In case of conversion of Convertible Preferred Stock into Common Stock, the dividend on the shares of Convertible Preferred Stock surrendered for conversion and the dividend on the shares of Common Stock to be issued shall be adjusted as of the date of the conversion, if and as prescribed from time to time by resolution of the Board of Directors, so that dividends shall not be paid for the same period on both the shares surrendered and the shares to be issued.

(*f*) Delivery of Common Stock certificates on conversion of Convertible Preferred Stock shall be made free of any transfer or other tax in respect of such delivery. The Corporation shall pay all stamp and other duties in connection with such delivery.

(*g*) Shares of Convertible Preferred Stock redeemed by the Corporation and shares of Convertible Preferred Stock surrendered for conversion into Common stock and shares of Convertible Preferred Stock purchased by the Corporation for retirement shall be cancelled immediately upon the redemption or conversion or purchase for retirement thereof and shall not be reissued; and such shares shall from time to time and at convenient times be retired in the manner provided by law and the authorized Capital Stock of the Corporation reduced accordingly.

5. The holders of the Convertible Preferred Stock and the holders of the Common Stock shall be entitled to subscribe pro rata according to the number of shares of their respective holdings of stock of either class to any Common Stock or stock participating with the Common Stock of the Corporation which may be hereafter issued, except Common Stock issued by way of dividend and except Common Stock issued for cash, property or services (the value of which property or services shall, for the purposes hereof, be conclusively determined by resolution of the Board of Directors) at a price which shall net the Corporation Twenty-five dollars ($25) per share or more, in cash and/or in property and/or in services valued as above provided.

6. Each share of Convertible Preferred Stock and each share of Common Stock shall be entitled to one (1) vote.

7. The vote of the holders of all or of any propcrtion of the shares of any class of stock, as a class, shall not be required for any action whatsoever to be taken or authorized by the stockholders of the Corporation, including any amendment of the Charter, except where some mandatory provision of law, requiring the vote of the holders of some stated proportion of the shares of any class of stock, shall be controlling over the provisions of this Paragraph 7 and in any case where some mandatory provision of law shall so control, any such action whatsoever required to be taken or authorized by vote of the holders of shares

of any class of stock, as a class, shall be effective and valid, unless some such mandatory provision of law shall be controlling to the contrary, if taken or authorized by vote of the holders of a majority of the shares of such class issued and outstanding and entitled to vote; provided, however,

That until at least sixty per cent (60%) of the largest amount of Convertible Preferred Stock theretofore at any one time outstanding shall have been converted into Common Stock or redeemed or purchased for retirement the consent of the holders of at least a majority in amount of the Convertible Preferred Stock then outstanding, given in person or by proxy either at an annual meeting or at an extraordinary meeting called for that purpose, shall be necessary for effecting or validating any one or more of the following:

(*a*) Any consolidation or merger of the Corporation with or into any other corporation, or any sale or lease or other disposition of all or substantially all of its assets; provided, however, that this prohibition shall not be deemed to apply to, nor shall it operate to prevent, the purchase by the Corporation of the assets or the shares of stock, in whole or in part, of any other corporation;

(*b*) Any distribution of capital of the Corporation to stockholders of the Corporation other than holders of the Convertible Preferred Stock;

(*c*) Any reduction of Common Stock which would effect or permit the conversion or transfer of any capital of the Corporation to surplus;

(*d*) Any creation or issue of any stock having any preference or priority which is or would be superior to or on an equality with any preference or priority of the Convertible Preferred Stock provided for herein, or the creation or issue of any security or obligation convertible into any stock having any such preference or equality or priority;

(*e*) Any increase of the authorized amount of Convertible Preferred Stock beyond the 15,000 shares of Convertible Preferred Stock herein authorized; and

(*f*) The amendment, alteration or repeal of any of the terms of the Convertible Preferred Stock herein stated;

but, subject to the foregoing provisions of this paragraph 7, the Corporation reserves the right from time to time to make any amendment to its Charter including any amendment changing the terms of any of its outstanding stock by classification, reclassification or otherwise.

8. Except as hereinabove expressly provided, no holder of Convertible Preferred Stock and/or of Common Stock shall be entitled as a matter of right to purchase or subscribe for any part of any

unissued stock of the Corporation or for any additional stock of any class to be issued by reason of any reclassification or increase in the authorized Capital Stock of this Corporation or of any bonds or securities convertible into stock of this Corporation, whether issued for cash, property or services or by way of dividend or otherwise.

9. In no event shall any dividend be paid or declared on the Common Stock unless and until the current quarter-yearly dividend on the Convertible Preferred Stock as well as all unpaid accumulated dividends thereon, if any, shall have been paid or declared and funds sufficient for the payment thereof set apart. Subject to the foregoing provisions and not otherwise, such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared and paid on the Common Stock from time to time out of the surplus or net profits of the Corporation.

VIII

The Board of Directors of the Corporation is hereby empowered to authorize the issuance from time to time of its shares of stock without par value of any class, whether now or hereafter authorized, and securities convertible into shares of its stock without par value of any class, whether now or hereafter authorized, for such considerations as the Board of Directors may deem advisable, subject to the limitations and restrictions hereinabove set forth.

If so determined by the Board of Directors, the Corporation may from time to time receive money and/or other property and credit the amount or value thereof to reserve or surplus, and such money or other property may be an undivided part of money or other property for another part of which stock, bonds, debentures and/or other obligations of the Corporation are issued. Against any reserve or surplus so established there may be charged losses at any time incurred by the Corporation, also dividends or other distributions upon stock. Such reserve or surplus may be reduced from time to time by the Board of Directors for the purposes above specified, or by transfer from such reserve or surplus to capital account.

IX

The Board of Directors of the Corporation is hereby empowered to authorize the issuance and sale from time to time of bonds, notes, debentures or other obligations of the Corporation for such considerations as the Board of Directors may deem advisable, and to provide that all or any part of such bonds, notes, debentures or other obligations may be convertible into shares of stock, without par value, of the Corporation, of any class, whether now or hereafter authorized and/or entitling the holders thereof to participate in, or receive payments in relation to, the profits of the Cor-

poration, such bonds, notes or other obligations to be issuable in such series, in such denomination or denominations and with such interest rate or rates, redemption price or prices and maturing at such time or times and otherwise varying as the Board of Directors may determine; and the Board of Directors is hereby empowered and authorized, without the consent or vote of the stockholders of any class, to mortgage, pledge and/or hypothecate all or any part of the Corporation's property, real, personal or mixed (except its franchises) and its rents, revenues and income, whether now owned or hereafter acquired, and to authorize the execution, delivery, filing and recording of mortgages, deeds of trust or other indentures, in such form as shall be determined by the Board of Directors, to secure the payment of all or any of such bonds, notes, debentures or other obligations, the principal and interest thereof, the premium, if any, thereon, and any and all other amounts or sums payable in respect thereof or in connection therewith, subject to such limitations and restrictions, if any, as may be set forth in the By-Laws of the Corporation.

X

In the absence of fraud, no contract or other transaction between the Corporation and any other corporation or any individual, association or firm shall be in any way affected or invalidated by the fact that any of the Directors of the Corporation are interested in such other corporation, association or firm or personally interested in such contract or transaction, nor shall any Director so interested be liable to account to the Corporation, by reason of such Director holding such office or the fiduciary relation thereby established, for any profit made by him from or through any such contract or transaction which shall have been authorized, ratified or approved either by the Board of Directors or by the stockholders entitled to vote. Any Director of the Corporation may vote upon any contract or other transaction between this Corporation and any subsidiary or affiliated corporation without regard to the fact that he is also a director of such subsidiary or affiliated corporation.

Any contract, transaction or act of the Corporation or of the Board of Directors, which shall be ratified by a majority of a quorum of the stockholders entitled to vote at any annual meeting, or at any extraordinary or special meeting called for such purpose, shall, except as otherwise specifically provided by statute or by this Charter, be as valid and as binding as though ratified by every stockholder of the Corporation; provided, however, that any failure of the stockholders to approve or ratify such contract, transaction or act, when and if submitted, shall not be deemed in any way to render the same invalid, or to deprive the Directors and officers of their right to proceed with such contract, transaction or act.

XI

The duration of the Corporation is to be perpetual.

IN WITNESS WHEREOF, we have signed this Charter on January 31, 1927.

JOHN FOSTER DULLES,
HORACE G. REED
STODDARD M. STEVENS, JR.

Witness:
JOHN J. TIERNEY.

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

This is to certify that on the 31st day of January, 1927, before me the subscriber, a Notary Public of the State of New York in and for the County of New York, personally appeared John Foster Dulles, Horace G. Reed and Stoddard M. Stevens, Jr. and severally acknowledged the foregoing Certificate of Incorporation to be their act.

Witness my hand and notarial seal the day and year last above written.

JOHN J. TIERNEY,
Notary Public,
Kings County, New York.

Notarial Seal

Clerks No. 19, Register No. 8015,
Certificate filed New York County.
Clerks No. 58, Register No. 8073,

STATE TAX COMMISSION OF MARYLAND:

IT IS HEREBY CERTIFIED, that the within instrument, is a true copy of the certificate of incorporation of "Standard Investing Corporation" as received and approved by the State Tax Commission of Maryland January 31st, 1927, at 4.00 o'clock P. M.

AS WITNESS my hand and the seal of the said Commission at Baltimore this 31st day of January, 1927.

THOMAS A. MURRAY, JR.
Secretary.

Seal of the Office of State Tax Commission of Maryland

SURVEY OF ACTIVITIES AND FORMS OF INVESTMENT TRUSTS

SUMMARY OF RECOMMENDATIONS

The investigation conducted as a basis for this report was of such broad scope and so intensive that all angles of the industry underwent careful scrutiny. Our conclusion is that Investment Trusts which now handle hundreds of millions of dollars of the funds of American investors for the primary purpose of reinvestment on behalf of investors, are charged with an unusual degree of public responsibility. We strongly recommend legislation which will subject investment trusts to legal supervision by the State of New York.

The Martin Act which gives the Attorney-General the right to investigate the conduct of affairs of companies selling securities within New York State is ample protection to the public in the purchase of securities of fraudulent concerns.

It is not, however, primarily protection from fraud that is needed in the case of investment trusts; it is the public assurance that:

(1) The people managing these trusts are men of character, integrity and responsibility;

(2) That they are willing to show their faith in their enterprises by investing a substantial amount of their own funds in them, and

(3) That books and accounts are properly kept, with accurate and reasonably frequent reports to security holders.

It is believed that abuses of practice which might otherwise occur will be adequately forestalled if a public officer of the State is charged with the responsibility of:

(1) Refusing a charter to improper or dishonest incorporators;

(2) Examining the original plan and prospectus, with the right to reject improper plans, and

(3) Requiring reports and from time to time examining the books and accounts of investment trust organizations.

The investigation has revealed many well defined and eminently proper rules of conduct which have been followed by successful investment trusts abroad and for the most part by the larger and better-sponsored trusts in the United States. An attempt to state these rules with explanatory comment thereon follows:

1. An investment trust, especially because of its financial and public nature, should pay only a moderate amount for its capital.

(Investment trusts in Great Britain having been established for a long period of years, pay relatively small commissions for new capital. The organization and original sales cost of American investment trusts

have ranged up to twenty percent, though in most cases the costs have been substantially less, and in some cases as low as one or two percent. It is believed that any cost of marketing securities is excess of ten percent is excessive.)

2. The primary purpose of an investment trust is investment and reinvestment in securities.

(Any departure from the practice of confining the major activities of an investment trust to the investment and reinvestment of marketable securities is to be deprecated. The sale of securities "short" or the purchase of securities on margin or participation in stock pools and joint accounts for market manipulation are distinctly improper activities for an investment trust.)

3. Periodic audits (at least annually) of all assets, liabilities, income and expenses should be conducted by independent public accountants and a copy of such report sent to all shareholders or certificate holders.

(The submission of balance sheets and income statements to a public officer charged with supervision of such trusts and subsequent examinations by that officer should not replace an independent audit by capable public accountants.)

4. The legality of all issues should be vouched for beyond question.

(No company should ask its clients to purchase securities that have not been passed upon by competent legal opinion as to the validity thereof. A copy of this opinion should be exhibited to any security holder or prospective purchaser upon request.)

5. All contingent liabilities should be indicated in the balance sheet and clearly stated in all literature.

(The investor should be given to understand the contingent liability affecting the company, a substantial part of whose assets are invested in bank shares, joint stock land bank shares and other extra-liability securities. Any liability for the issuance of optional shares or any other liability operating to dilute the equity of the security holders should be clearly stated in the balance sheet and literature.)

6. Literature should clearly and accurately describe the character of the company and the securities offered.

(The employment of estimates of future earnings is to be deplored. The use of conservative language and the avoidance of bright colors is strongly commended. The amount of the investor's dollar which goes into the purchase of securities and the extent to which assets are readily marketable should be clearly revealed in descriptive literature.)

7. Loans to or transactions with officers, directors, trustees or closely affiliated companies as principals in the purchase and sale of securities is bad practice.

(The opportunity and temptation to abuse in the fixing of prices of securities under such circumstances is of sufficient importance to be included in the articles of incorporation, the declaration of trust or by-laws of any corporation or trust transacting an investment trust business.)

* * * * *

Extract from "A Survey of the Activities and Forms of Investment Trusts with Recommendations for Statutory Regulation by the New York State Department of Law."

By Albert Ottinger,
Attorney-General of New York State, and
Timothy J. Shea,
Assistant Attorney-General, Bureau of Securities.

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"You to the left and I to the right
For the ways of men are not even
And it may be for a day & a night
And it well may be forever.
But whether we meet or whether
we part
(For our ways we part or turn
ing)
I glide from the heart to the
fellow heart
On the ways we all are going
Here luck!
For we know not where we
are going.

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